



2008 Annual Training Seminar

TMRS – Changing with the Times

Back to Basics

Texas Municipal Retirement System

A Little History

- ◆ Retirement systems in the U.S. were created in reaction to the Great Depression of the 1930's
- ◆ Hard times led to public planning for the post-career needs of employees
- ◆ Post-retirement security helps prevent other social problems
- ◆ Over time, public systems developed differently from private systems



Characteristics of Public Plans

- ◆ **Majority of public plans are contributory, defined benefit plans**
- ◆ **Defined benefit plans allow benefits to be financed over a career and allow a greater degree of contribution flexibility for employers**
- ◆ **Employer usually assumes the risk of investment performance**
- ◆ **Public employees tend to be lower paid and longer tenured**

Characteristics of Public Plans, cont.

- ◆ **In a public plan, ideally, contributions will remain reasonably level as a percent of payroll over many generations of taxpayers**
- ◆ **Pooled investments and actuarial funding methods help defray taxpayer cost**



Public Plans in Texas

There are over 414 public retirement systems operating in Texas today, including:

- ◆ **Teacher Retirement System (TRS) – established in 1936**
- ◆ **City of Austin (COERS) – 1941**
- ◆ **City of Dallas (ERF) – 1943**
- ◆ **City of Houston (HMEPS) – 1943**
- ◆ **Employees Retirement System of Texas (ERS) – 1947**
- ◆ **TMRS – 1947**
- ◆ **Texas County & District Retirement System (TCDRS) – 1967**

Trends since 1980's



- ◆ **Private sector has moved away from Defined Benefit Plans**
- ◆ **Risk of investment performance has been shifted to employees**
- ◆ **Public sector has come under pressure to do the same**

Demographics

- ◆ Aging population
- ◆ Longer lifespans
- ◆ More retirees supported by fewer active employees
- ◆ In Texas: increasing urbanization causing rapid growth in some cities, negative growth in others



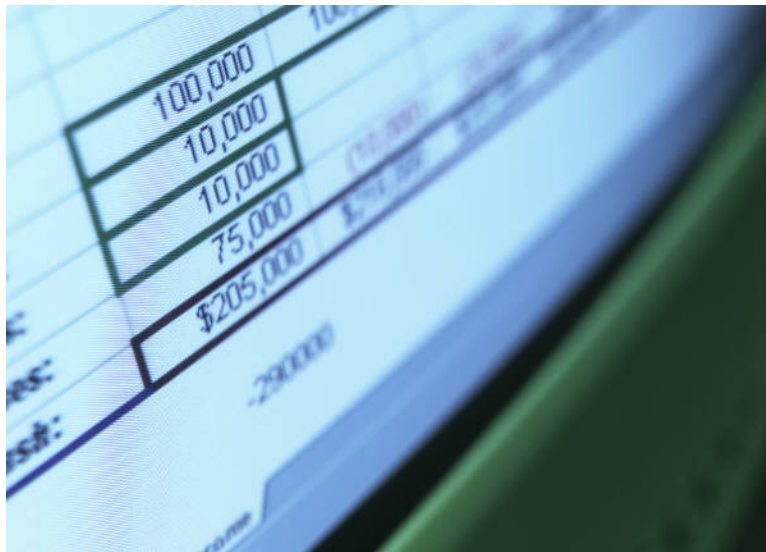
Trends since 1980's, cont.

- ◆ In the 1990s, with good investment performance, many plans improved benefits while employers lowered contributions



Greater Demand for Fiscal Accountability

- ◆ Increased GASB disclosure standards – first for private, then for public plans
- ◆ Enron and other disasters lead to demands for market oversight



- ◆ Financial downturn of early 2000's revealed funding deficiencies

TMRS History

- ◆ **Created by the Texas Legislature in 1947**
- ◆ **9 charter cities initially, starting in 1948**
- ◆ **Corpus Christi joined in 1950**
- ◆ **Money purchase plan design**
- ◆ **Major system growth occurred in late 80's and 90's**
- ◆ **827* cities participate in the System today, ranging in size from 1 to 6,304 contributing members**
- ◆ **Covers 134,885* active employees and 32,143* retirees**
- ◆ **TMRS affects the Texas economy; a study was commissioned in 2006 to study the economic impact of TMRS benefits**

TMRS and the Texas Economy

- ◆ **TMRS is an important benefit that affects the financial well-being of thousands of Texans**
- ◆ **TMRS helps cities attract and retain well-qualified workers, and communities also enjoy the millions of dollars in payments to retired employees**
- ◆ **Membership, contributions, and payments have expanded in recent years; the majority receiving payments live in Texas**
- ◆ **Economic impact of these payments is felt in all parts of the state: \$1.32 billion in annual spending and 9,365 permanent jobs in 2006**
- ◆ **Payments through the system are a notable source of economic growth for communities across the state**

2007-2008

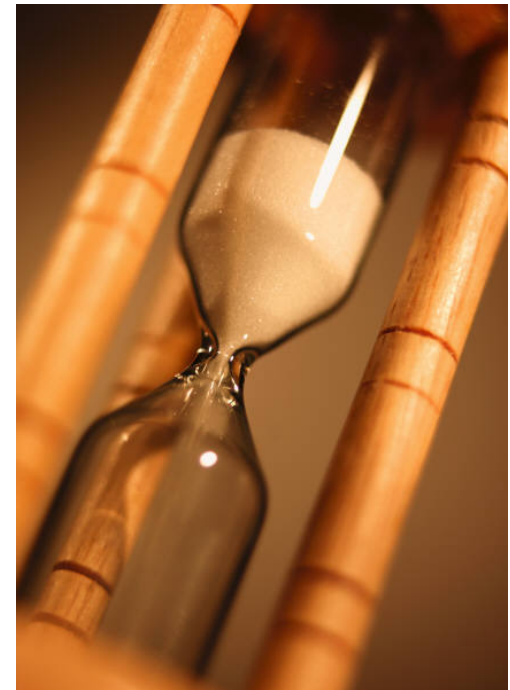
A Year of Changes

- ◆ Actuarial changes
- ◆ Investment changes



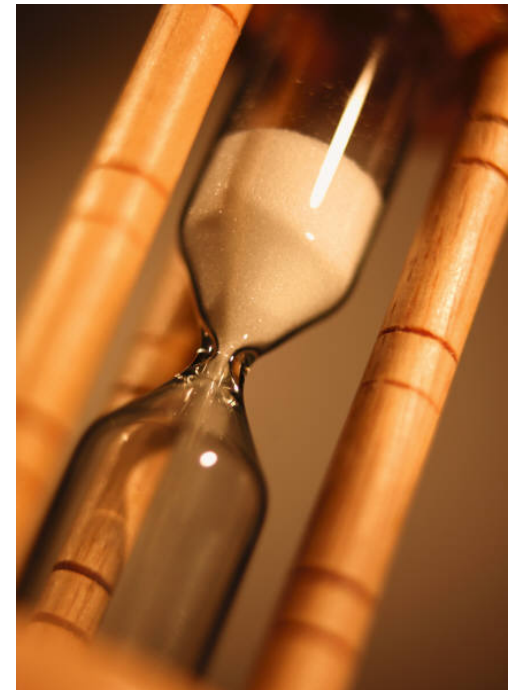
Why Change Actuarial Cost Method?

- ◆ **Full cost of annually repeating benefits was not being advance-funded**
- ◆ **Cities with annually repeating benefits (Updated Service Credit and COLAs), were seeing contribution rates rise while funding ratios worsened**



Actuarial Cost Method

- ◆ **Prior to 2008 – traditional Unit Credit**
- ◆ **In late 2007, Board approved change to Projected Unit Credit (PUC), effective for 2009 City Rates**
- ◆ **PUC provides advance funding of annually repeating USC and COLAs**



Actuarial Cost Method, cont.

- ◆ **New Actuarial Cost Method means higher contributions for cities with repeating benefits, but contributions should remain reasonably level over time (and decline after 30 years)**
- ◆ **Some cities, those without repeating benefits, saw contribution requirements decrease under new method**
- ◆ **New actuarial firm – Gabriel Roeder Smith & Company (GRS) – for 12/31/2008 valuation**

TMRS Investments



- ◆ **\$14.53 billion as of 12/31/07**
- ◆ **Historically, 100% in bonds**
- ◆ **In 2007, TMRS Board approved diversification into stocks**
- ◆ **\$1.1 billion in stocks as of 9/1/08**
- ◆ **Target is 12% in stocks by end of 2008 with additional diversification following legislation in 2009**

Why Change?

- ◆ Outlook for bond income is not as positive as past 30 years – declining yields and interest rate risk
- ◆ TMRS moving to Total Return Strategy to improve expected returns and lower expected risk
- ◆ Change will support continuation of 5% annual interest to member accounts and will help offset cities' funding costs



2007-2008

Keeping Everyone Informed

- ◆ **TMRS is committed to ensuring that cities, members, and retirees know what TMRS is doing and why we are doing it**



Keeping Everyone Informed, cont.

- ◆ **11 Funding Workshops in 2008, with over 180 cities participating**
- ◆ **14 e-bulletins sent to cities and other interested parties**
- ◆ **Presentations at numerous conferences, seminars, and meetings**
- ◆ **Newsletters, press communications, Website**
- ◆ **4 rate projection packets sent to city finance personnel, beginning in August 2007**

Partnering with Cities and Members

- ◆ **New charter for TMRS Benefits Advisory Committee**
- ◆ **Regional Manager positions created to increase city services**
- ◆ **Legislative Stakeholder Group**

What's Next?



- ◆ **Cities will decide at what rate level they will contribute in 2008.**
- ◆ **Cities with rate increases greater than .5% have the option to pay the “Phase-in” Rate**
- ◆ **TMRS encourages cities to pay the Full Rate if possible**

Investment Diversification Will Continue

- ◆ R.V. Kuhns – investment advisors
- ◆ Work will continue to shorten the duration of the TMRS fixed income portfolio
- ◆ If legislation passes, diversification into equities can continue
- ◆ Other asset classes may be considered after 2009



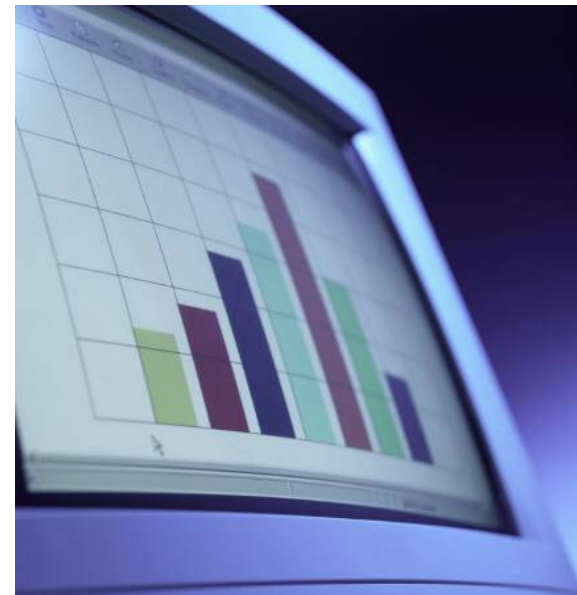
TMRS Legislation

- ◆ **Most important since 1948**
- ◆ **Three provisions:**
 - 1. Allow TMRS to credit unrealized gains and losses to cities**
 - 2. Guarantee members an annual interest rate and annuity purchase rate**
 - 3. Allow employers variable annual interest rates, including negative rates**

TMRS Legislation (cont.)

Passage of these provisions will:

- ◆ **Allow continued diversification of the fund**
- ◆ **Protect member benefits**
- ◆ **Help mitigate higher city contribution rates**
- ◆ **Allow TMRS to build a reserve for “bad years”**



TMRS Legislation (cont.)

If 2009 legislation does not pass:

- ◆ **Investment diversification will stop**
- ◆ **City rates will be even higher, and cuts in benefits will be likely**
- ◆ **Member interest credits will fall below 5% in a few years**

Legislative Stakeholder Group

- ◆ **Formed in May 2008**
- ◆ **Includes representatives from city government, associations, membership, and retirees**
- ◆ **Recommendations made to and accepted by TMRS Board in August**
 - ◇ **Consensus on TMRS package**
 - ◇ **Keep group together for future sessions**
 - ◇ **Build reserves**
- ◆ **Bottom line is preservation of members' benefits at a cost cities can afford to pay**

To Recap:

What were the goals of public pensions, including TMRS, 60 years ago?

- ◆ **To provide a secure retirement benefit for career public employees in both good and bad economic times at an affordable cost to employers**
- ◆ **To use pooled investment income to fund future benefits**
- ◆ **To keep the cost of benefits level across many generations of taxpayer**

To Recap:

Those goals are still valid for public systems today, and we believe the steps that TMRS is taking today will ensure they are met for our members and cities for the future.





Questions & Answers