



2008 Annual Training Seminar

# Plan Design 101

*Back to Basics*  

---

*Texas Municipal Retirement System*

# City Officials Need Specific Information

- ◆ **Technical information about the plan**
- ◆ **Financial information; scenarios showing impact of proposed changes**
- ◆ **Information for decision-making**



# City's Role



- ◆ City voluntarily elects to participate in TMRS
- ◆ Plan decisions and modifications remain in the city's hands
- ◆ Cities can change their plan provisions by ordinance
- ◆ Exhibit F in *TMRS FACTS for City Officials* details what plan design options a city has and when action can be taken

# City's Role (cont.)

- ◆ ***City Correspondents*** – At least one individual responsible for the city's administration of TMRS; handles the day-to-day administrative work and serves as the primary contact and educator
- ◆ ***City Decision-makers*** – Elected and appointed officials and those in management and finance who make decisions involving plan costs and employee benefits
- ◆ ***Payroll Reporting*** – usually performed by Finance or Accounting personnel

# How Does the System Work?

- ◆ **TMRS is one of the nation's oldest "hybrid" pension plans.**
- ◆ **The System is joint contributory, meaning both the employee and employees fund the benefit.**
- ◆ **The retirement benefit is cash balance in nature, meaning a member's total reserves are turned into a lifetime benefit at retirement.**
- ◆ **TMRS does not receive state money; it is funded by TMRS members and municipalities, plus earnings from investment income.**

# How Are TMRS Retirement Benefits Funded?

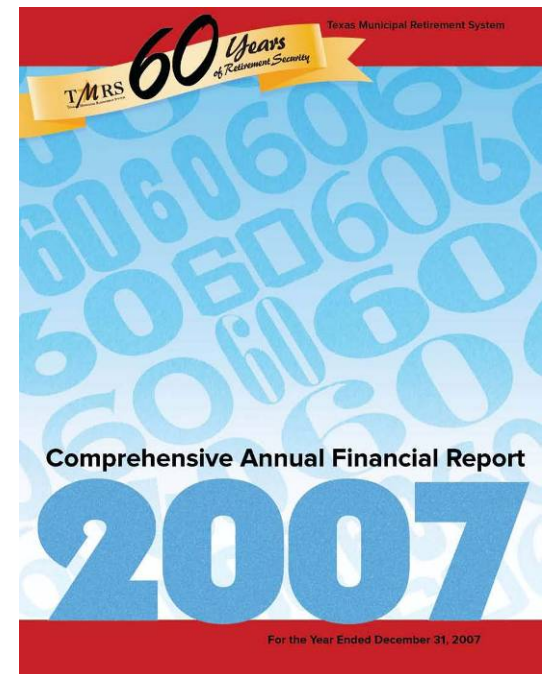


- ◆ Deposits made by employees
- ◆ Monthly contributions made by employers
- ◆ Investment earnings
- ◆ Contribution rate is set to pay your city's Normal Cost and a part of your amortized liability

# Pension Trust Fund Accounts

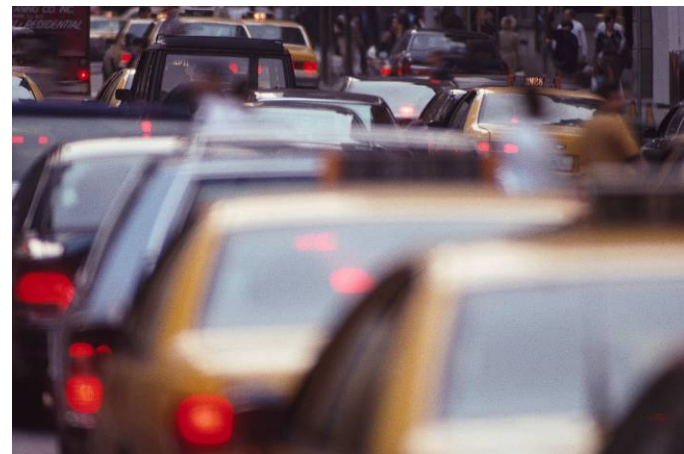
- ◆ Employees Savings Fund (ESF)
- ◆ Municipality Accumulation Fund (MAF)
- ◆ Current Service Annuity Reserve Fund (CSARF)
- ◆ Endowment Fund
- ◆ Expense Fund
- ◆ Supplemental Death Benefits Fund

Changes in the MAF and ESF balances are shown in the *Comprehensive Annual Financial Report (CAFR)*, issued annually.



# How Do I Know My City's Cost?

- ◆ **Contribution rate for each city is established every year**
- ◆ **Process starts with an annual actuarial valuation**
- ◆ **TMRS notifies each city of its plan cost for the next year with a City Rate Letter**



# City's Costs (cont.)

- ◆ **City Rate = Annual cost of providing benefits for your employees**
- ◆ **Based on the benefits you have chosen for your city**
- ◆ **Expressed as a percentage of payroll**



# Current Service and Prior Service Costs

- ◆ **Retirement Portion**
  - ◇ **Normal Cost contribution rate (current service)**
  - ◇ **Prior Service contribution rate**
- ◆ **Amortizes a city's unfunded actuarial accrued liability (UAAL) over a closed period of either 25 or 30 years**
- ◆ **An unfunded actuarial liability is simply the difference between the benefits promised under the plan and the plan's actuarial assets**

# Why Rates Fluctuate

- ◆ **Significant sources of annual rate changes for TMRS cities are:**
  - ◇ **Withdrawals**
  - ◇ **Updated Service Credits (USC) and Annuity Increases (COLAs)**
  - ◇ **Payroll growth**
- ◆ **Full information for each city is contained in the city's annual Rate Letter**



# Maximum Contribution Rate Limit

- ◆ If your city reaches this limit (Stat Max), we will let you know in the Annual Rate Letter, which spells out some possible solutions:
  - ◇ Remove the limit (by ordinance)
  - ◇ Increase the limit (by ordinance)
  - ◇ Pay the Actuarially Determined Calculated Rate (by ordinance; this is a one-year-at-a-time fix)
  - ◇ Pay the Maximum Contribution Rate Limit

## NOTE

*If a city does not act to remove or increase the Stat Max, annually repeating benefits (USC and Annuity Increases) will be "turned off" until the rate drops back below the limit.*

*If the city does not pay the actuarially determined rate, it will have to note this in its financial statements, which could raise red flags.*

# Why Do Rates Increase?

- ◆ Any time a city adopts benefit improvements, costs to pay for those improvements will rise
- ◆ Expected withdrawal and payroll growth are different from actuarial projection
- ◆ Workforce stagnates, or workforce declines
- ◆ Ratio of active employees to retired employees drops.
- ◆ The growing number of retirees increases the cost of Annuity Increases (COLAs).
- ◆ Recent Change in Actuarial Methodology – *Projected Unit Credit*

# Actuarial Funding – Recent Changes



- ◆ **Projected Unit Credit actuarial cost method**
- ◆ **Phase-in Rates**
- ◆ **Voluntary contributions**
- ◆ **New Actuary – Gabriel, Roeder Smith & Company (GRS)**
- ◆ **GASB compliance statements**

# Accounting for TMRS Benefits

- ◆ **TMRS follows the accounting guidelines and disclosure requirements established by the Governmental Accounting Standards Board (GASB).**
- ◆ **TMRS provides data to cities to comply with reporting standards of GASB Statements No. 27 (pension funding progress) and No. 45 (Supplemental Death Benefits fund).**
- ◆ **This information is generated as part of the annual December 31 actuarial valuation and is included as part of the Rate Letter Package.**

# Types of Service Credit

- ◆ **Prior Service**
- ◆ **Probationary Prior Service**
- ◆ **Restricted Prior Service**
- ◆ **Buyback**
- ◆ **Proportionate Retirement**
- ◆ **Updated Service Credit**
- ◆ **Military Service**
- ◆ **USERRA**



## Prior Service Credit

- ◆ Service performed before city joined TMRS
- ◆ Monetary credit applied only if employee retires

## Probationary Prior Service Credit

- ◆ Optional provision — employees hired on “*probationary*” basis before September 1, 1989, are eligible

## Restricted Prior Service Credit

- ◆ Optional provision that grants “time” credit for previous, full-time, paid, public work anywhere in U.S.

## **Buyback**

- ◆ **Optional provision allows employees who have forfeited TMRS time to “buy back” time**
- ◆ **Must be an employee of the city at the time the city adopts “buyback”**

## **Proportionate Retirement**

- ◆ **Texas public retirement systems allow combination of time between systems for vesting and retirement**
- ◆ **Funds stay in separate systems — only time is combined**

## **Updated Service Credit**

- ◆ **Optional provision designed to increase the value of retirement benefits comparable to an amount that more closely reflects the member’s pre-retirement income.**

# Proportionate Buyback for Current Employees



- ◆ Current TMRS members who have refunded service credit from *another* Texas statewide public retirement system may be allowed to restore that service credit with that retirement system
- ◆ Employees should contact the retirement system in which they previously participated for eligibility requirements
- ◆ No monetary value for TMRS; creates a separate annuity with the other system

# Military Service Credit Prior to Employment

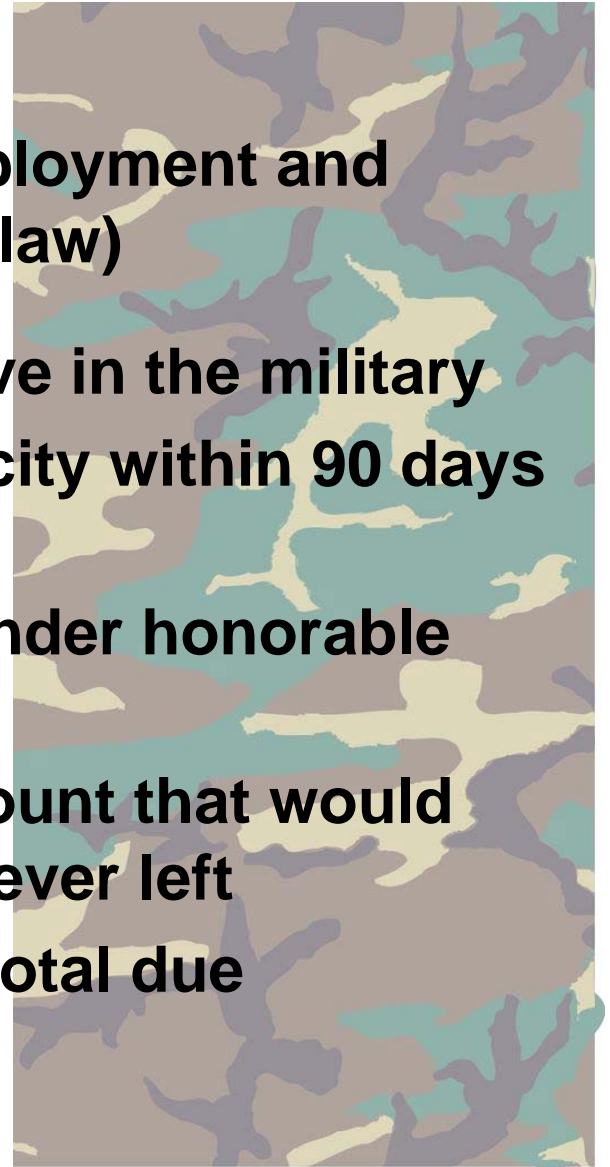
- ◆ **Optional provision that allows employees to purchase/receive credit for a maximum of 60 months active military service.**
- ◆ **Employee must have 5 years of service and have been a contributing member on 12-31-2003; otherwise credit only**



# What Is USERRA?

**USERRA = Uniformed Services Employment and Re-employment Rights Act (federal law)**

- ◆ **Must have left employment to serve in the military**
- ◆ **Must return to work for the same city within 90 days of discharge**
- ◆ **Must be released or discharged under honorable conditions**
- ◆ **Member can “pay” into TMRS amount that would have been contributed had they never left**
- ◆ **Member has up to 5 years to pay total due**



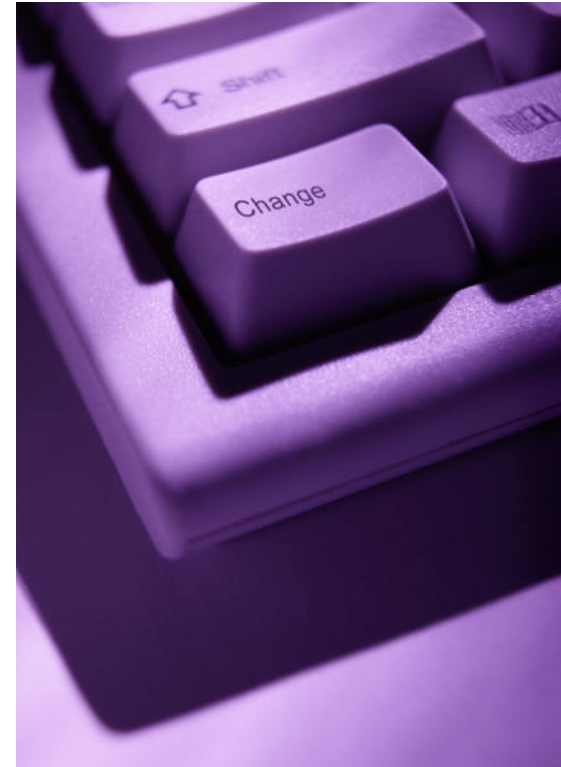
# ***Plan Options – How Can a City Change Them?***

- ◆ **Contact TMRS directly and ask to speak to the Deputy Executive Director or a member of the “Travel Team”**
- ◆ **We run an actuarial study for proposed plan changes\* or removal of benefits to determine the effect the proposed changes will have on your city rate**

***\* See the Plan Changes Table (inside back cover of “TMRS FACTS for City Officials”) for details***

# ***What Modifications Are Allowed?***

- ◆ **Employee contribution rate**
- ◆ **City matching ratio**
- ◆ **Updated Service Credit (USC)**
- ◆ **Annuity Increases (COLAs)**
- ◆ **Vesting (5-year)**
- ◆ **Retirement Eligibility (20-year, any age)**
- ◆ **Military service credit**
- ◆ **Probationary prior service credit**
- ◆ **Restricted prior service credit**
- ◆ **Buyback of forfeited TMRS credit**
- ◆ **Supplemental Death Benefit**



# Cost of Living Adjustments (COLAs) and Updated Service Credit (USC)

- ◆ In TMRS, COLAs (also called Annuity Increases) and USC can be adopted either on an annually repeating basis or ad hoc
- ◆ Many cities have adopted annually repeating benefits

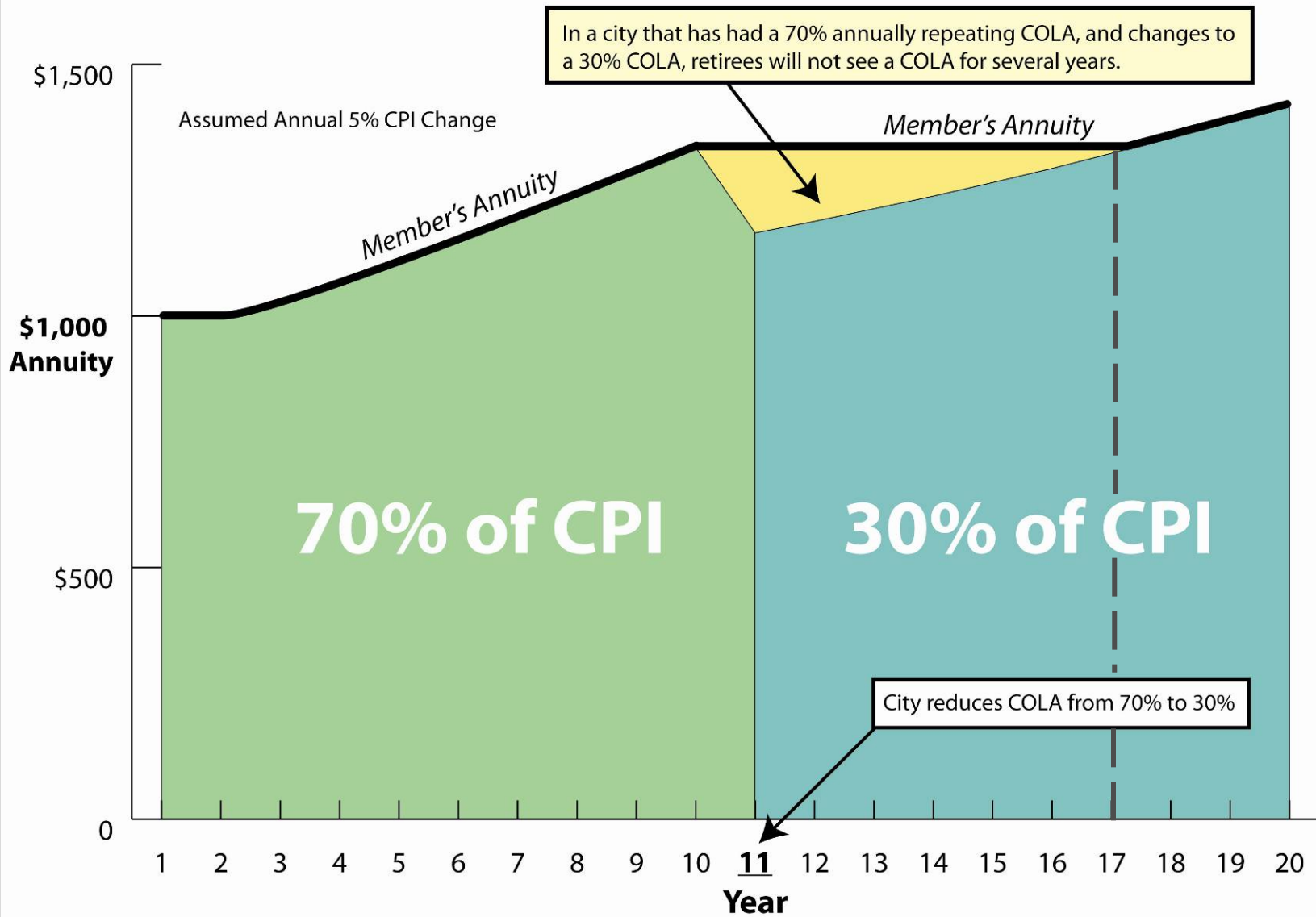


# Important Note about COLAs

- ◆ **TMRS COLAs are calculated on the change in CPI over the entire time a member is retired.**
- ◆ **One effect of this is that, if a city has been granting 70% of CPI annually repeating COLAs and changes to a lower COLA percentage, retirees will not see any benefit increase for several years.**



**TMRS COLAs are calculated on the change in CPI for all the years since retirement.**



# ***What Plan Options Can Be Removed or Changed?***



- ◆ **Employee contribution rate – 2/3 vote of employees required**
- ◆ **City matching ratio – January 1 effective date**
- ◆ **Updated Service Credit (USC) – January 1**
- ◆ **Annuity Increases (COLAs) – January 1**
- ◆ **Supplemental Death Benefit – Can be stopped if done by November 1**

# *What Plan Options*

## *Can **NOT** be Removed or Changed?*



- ◆ **Vesting (5-year) – Cannot be changed**
- ◆ **Retirement Eligibility (20-year, any age) – Cannot be changed**
- ◆ **Military service credit – Cannot be changed**
- ◆ **Probationary prior service credit – Cannot be changed**
- ◆ **Restricted prior service credit – Cannot be changed**
- ◆ **Buyback of forfeited TMRS credit – Cannot be changed**

# City "Snapshot"

## My City Plan as of July 2008

### City name and number

Any City (00000) since 06-1948

### Employee's deposit rate

7% (01-1968)

### City's matching ratio

200% (01-1966)

### Vesting requirement

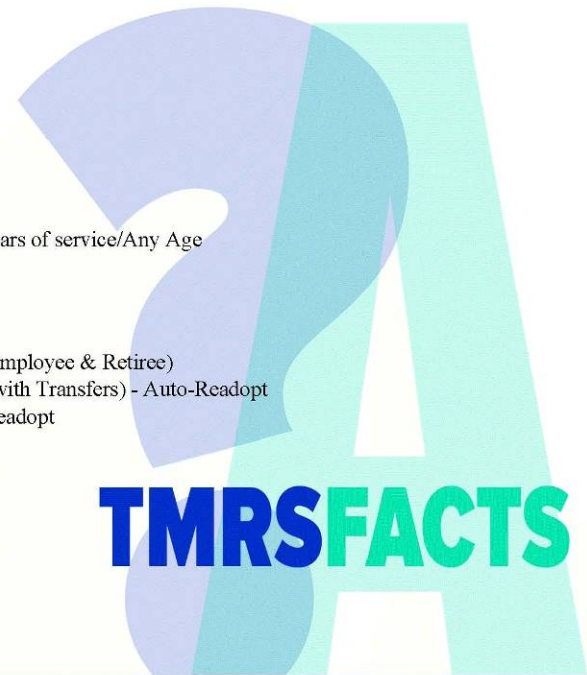
5 years of service

### Retirement eligibility

5 years of service/Age 60; 20 years of service/Any Age

### Additional provisions

Supplemental Death Benefits (Employee & Retiree)  
100% Updated Service Credit (with Transfers) - Auto-Readopt  
70% Annuity Increase - Auto-Readopt  
Military Service Credit  
Restricted Service Credit  
Buyback (12-1981)



## Texas Municipal Retirement System

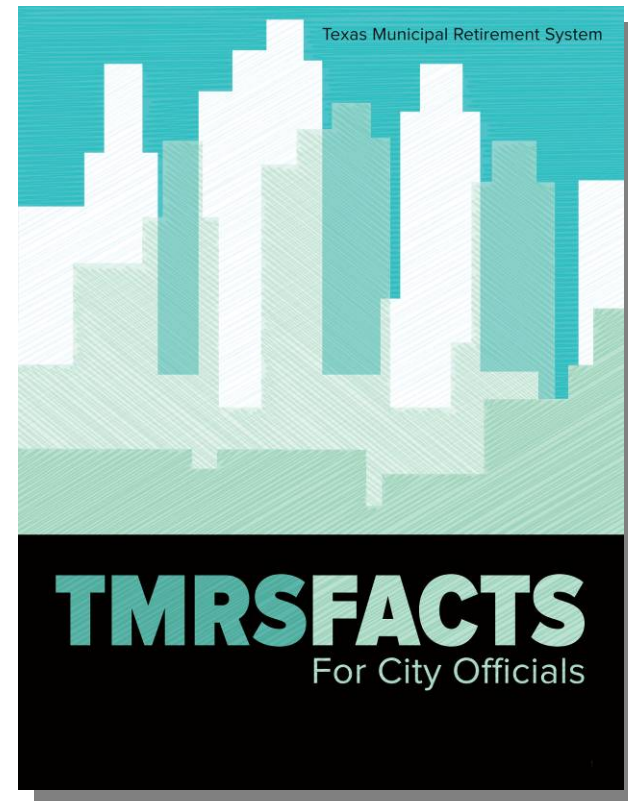
1200 North Interstate 35, Austin, Texas 78701 • PO Box 149153, Austin, Texas 78714-9153  
512.476.7577 • 800.924.8677 • Fax 512.476.5576 • [phonecenter@tmrs.com](mailto:phonecenter@tmrs.com)

# Recent System Changes

- ◆ **Change from Unit Credit to Projected Unit Credit method provides a better method of advance-funding future liabilities associated with annually repeating benefits.**
- ◆ **Change to a 25 (in some cases, 30)-year closed amortization period funds a larger share of liabilities each year and improves the System's and cities' funded ratios over time.**
- ◆ **Both the actuarial and amortization changes result in higher contributions for many cities, but also create a faster annual improvement in funded ratios.**

# ***TMRS FACTS for City Officials***

- ◆ **Contains all the information cities need about how TMRS works, including:**
  - ◇ **Sample GASB disclosure information**
  - ◇ **Investment overview**
  - ◇ **Explanation of municipal contribution rate reconciliation data**
  - ◇ **List of plan options with plan changes table (inside back cover)**



# For More Information

- ◆ Call our toll-free number:  
**800.924.8677**  
*Ask for the Deputy Executive Director, the Staff Actuary, or a member of the Travel Team*
- ◆ Send an e-mail to  
**[communications@tmrs.com](mailto:communications@tmrs.com)**





# Questions & Answers