



2008 Annual Training Seminar

TMRS
Legislative Report

Back to Basics

Texas Municipal Retirement System

81st Texas Legislature (2009)

The Most Important Session in TMRS History!

This presentation will cover:

- ◆ **How the Legislative Process Works**
- ◆ **Current Federal and State Issues Affecting TMRS**
- ◆ **TMRS Legislation**
- ◆ **Legislative Stakeholder Group**

The Texas Legislative Process

- ◆ Texas Legislature meets every two years for 160 days
- ◆ “Bicameral” legislature -- two chambers, the **House** and the **Senate**
 - ◇ 150 members of the House of Representatives
 - ◇ 31 members of the Senate
- ◆ Senate is led by the President of the Senate, the **Lieutenant Governor**:
 - ◇ Statewide office holder elected by Texas voters
 - ◇ Power and authority are granted by the rules of the Senate, not state statute or Texas Constitution
- ◆ House of Representatives is led by the **Speaker**:
 - ◇ Elected as a House member by his or her House district, then elected as Speaker by his or her colleagues on the first day of the legislative session

Where Legislative Proposals Come From

- ◆ **Groups pressing for a particular change in law**
- ◆ **Constituents in a member's district**
- ◆ **Events that “smoke out” deficiencies in the law or Constitutional provision**
- ◆ **Agencies or public entities like TMRS – these groups work during the interim to identify what their customers or agency needs or to ensure the soundness of their organization**
- ◆ **Legislative ideas also get formulated through interim charges**

How a Proposal Becomes a Bill

- ◆ **The proposal is first introduced and then goes through the committee process in both the House and Senate**
 - ◇ **Senate State Affairs Committee – standing committee that typically hears pension legislation**
 - ◇ **The House Pensions and Investments Committee – hears pension legislation.**

Reading and Reviewing the Bill

- ◆ **Legislation is read three times:**
 - 1. After the first reading, the bill is referred to committee.**
 - 2. The bill then goes to committee, is heard and either voted out, amended, or killed by action or inaction. It then goes to the House or Senate floor for debate.**
 - 3. After the vote in the “originating chamber” it crosses to the opposite chamber for reading and vote.**
- ◆ **Along the journey, it is accompanied by fiscal notes and bill analyses to assist Legislators, their staffs, and the general public to identify the impact of a bill. These documents are redrafted any time a bill changes during the process.**

The “Calendar” Process

- ◆ If the bill makes it out of committee, it makes its way to each respective chamber
- ◆ The Senate and the House chambers have “calendar” processes to follow
 - ◇ The Senate follows an “intent” calendar where bills reside until they’re eligible to come up on the Senate floor. Sometimes a Senator has the votes to “suspend” the rules in order to bring up a bill outside the regular order of business. A “blocker bill” is typically filed, which requires that a bill garner a two-thirds vote to get around the regular order of business and get to the Senate floor.
 - ◇ The House has more structured calendars (i.e., General, Major State, Local), and bills are heard in the order in which they appear on that calendar

Bill Passage

- ◆ **When bill passes, it has varying effective dates:**
 - ◇ **The 91st day after session adjourns (typically)**
 - ◇ **Could call for a later date**
 - ◇ **Could have immediate impact if a bill has 2/3s record vote in each House,**
 - ◇ **Appropriations bill has immediate effect**
- ◆ **If a bill passes, it can be vetoed, signed into law by the Governor, or become law without signature.**



Federal Legislation / Issues

The Pension Protection Act Technical Corrections Legislation



- ◆ **Interest Credit**
 - ◇ **Pension Protection Act (PPA) 2006**
 - ◇ **Interest Credit be set at a rate no greater than the market rate of interest**
 - ◇ **Allows governmental plans' interest credit rates to be set under state and local laws**
- ◆ **Also clears up that “self-insured” plans can participate in the HELPS program**
- ◆ **Technical Bill has passed both the House and the Senate and is working on being reconciled**

Federal Legislation / Issues, cont.

Normal Retirement Age

- ◆ **The IRS published regulations to define a “normal retirement age”**
 - ◇ **Definition: An age that is not earlier than the earliest age that is a reasonable representative of the typical retirement age for the industry in which the covered workforce is employed.**
- ◆ **Assumed reasonably representative ages:**
 - ◇ **Age 55 for non-public safety employees**
 - ◇ **Age 50 for qualified public safety employees**

Federal Legislation / Issues, cont.

Normal Retirement Age, cont.

- ◇ IRS is requesting comments from sponsors of governmental plans
- ◇ 20 national public sector organizations requested extension
- ◇ Congressional interest in withdrawing regs



Federal Legislation / Issues, cont.

Increased IRS Enforcement Efforts

- ◆ IRS working on process for increased enforcement
- ◆ Concerns regarding scope, lack of guidance, IRS involvement
- ◆ Congressional roundtable set for September to discuss with stakeholders the IRS' plan to increase efforts
- ◆ The roundtable will include federal representatives as well as State and local government stakeholders

State Legislation

House Bill 1244 - 80th Legislature

Passed last session and provided TMRS with the following authority:

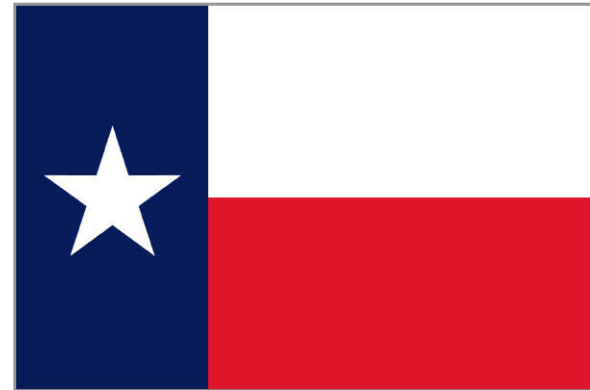
- ◆ **Allow cities to make additional contributions to TMRS above the calculated contribution rate, on a voluntary basis.**
- ◆ **Permit the TMRS Board to set amortization periods for funding TMRS pension liabilities.**
- ◆ **Grant the TMRS Board rulemaking authority to permit distributions to qualified health insurance providers for retired public safety officers under the federal Pension Protection Act (HELPS).**
- ◆ **Amend the TMRS Act to clarify the calculation of average salary for purposes of Updated Service Credit.**

State Legislation, cont.

House Bill 1244 - 80th Legislature

HB 1244 did NOT include:

- ◆ Add two new matching ratio options that cities may choose:
 - ◇ 1.25 to 1, 1.75 to 1
- ◆ Allow a TMRS retiree to return to work for the same city from which he or she retired – after a separation from service that lasts at least one calendar month – without the retirement benefit being suspended. People whose benefits are currently suspended will become unsuspended.



80th Legislative Interim

- ◆ **House Pension and Investments Committee interim charge: to review the impact of return to work in TMRS.**
- ◆ **Appeared before committee to further discuss return to work and expect an interim report to be released at end of interim process.**
- ◆ **Appeared before House committee to update on TMRS changes.**
- ◆ **Monitored other pension-related interim hearings.**
- ◆ **Interim work with TMRS Legislative Stakeholder Group.**

TMRS Legislative Stakeholder Group

- ◆ **Formed in May 2008**
- ◆ **Goal is to solicit feedback and input from group and build consensus around the three core elements necessary to:**
 - ◇ **Continue diversification**
 - ◇ **Achieve higher investment return**
 - ◇ **Lower contribution rates**
 - ◇ **Guarantee benefits to employees**
- ◆ **Includes representatives from city government, associations, membership, and retirees:**
 - ◇ **TMRS Advisory Committee on Retirement Matters**
 - ◇ **Arlington Fire, CLEAT, GFOAT, TMPA, TML, TMHRA, TCMA, SEIU, TSAFF**
- ◆ **Recommendations adopted and presented to TMRS Board in August. Board also adopted recommendations.**

Legislative Stakeholder Recommendations

- ◆ **Four recommendations were approved by the Legislative Stakeholder Group (LSG) and TMRS Board:**
 - 1. Interest credits to employee accounts and annuity purchase rate for retirement calculations to be no less than 5%**
 - 2. Seek authority for TMRS to credit unrealized gains and losses and establish that the employer accounts will bear the risk of TMRS investment performance and will receive a variable rate of interest each year**
 - 3. Excess earnings will be used to establish an adequate reserve account to stabilize contribution rates during years when returns are low**
 - 4. The LSG will remain as an advisory body to the TMRS Board to ensure that these provisions are monitored by interested parties for possible action in future legislative sessions**
- ◆ **DRAFT legislation being reviewed by LSG to be considered by TMRS Board in September**

LSG Recommendations, cont.

- ◆ **The LSG discussed various recommendations:**
 - ◇ **Gain-sharing**
 - ◇ **Increasing the member interest credit**
 - ◇ **Adding the return-to-work option for retirees**
 - ◇ **Restructuring Cost of Living Adjustments (COLAs)**
 - ◇ **Restructuring vesting requirements**
 - ◇ **Creating a two-tiered system of benefits**
 - ◇ **Proposed smoothing for rate stabilization**
 - ◇ **Including a sunset provision to legislation/investment authority**
- ◆ **The LSG concurred that the four recommendations adopted would prove critical for this session. A “to-do” list for the 2011 session already in the works**

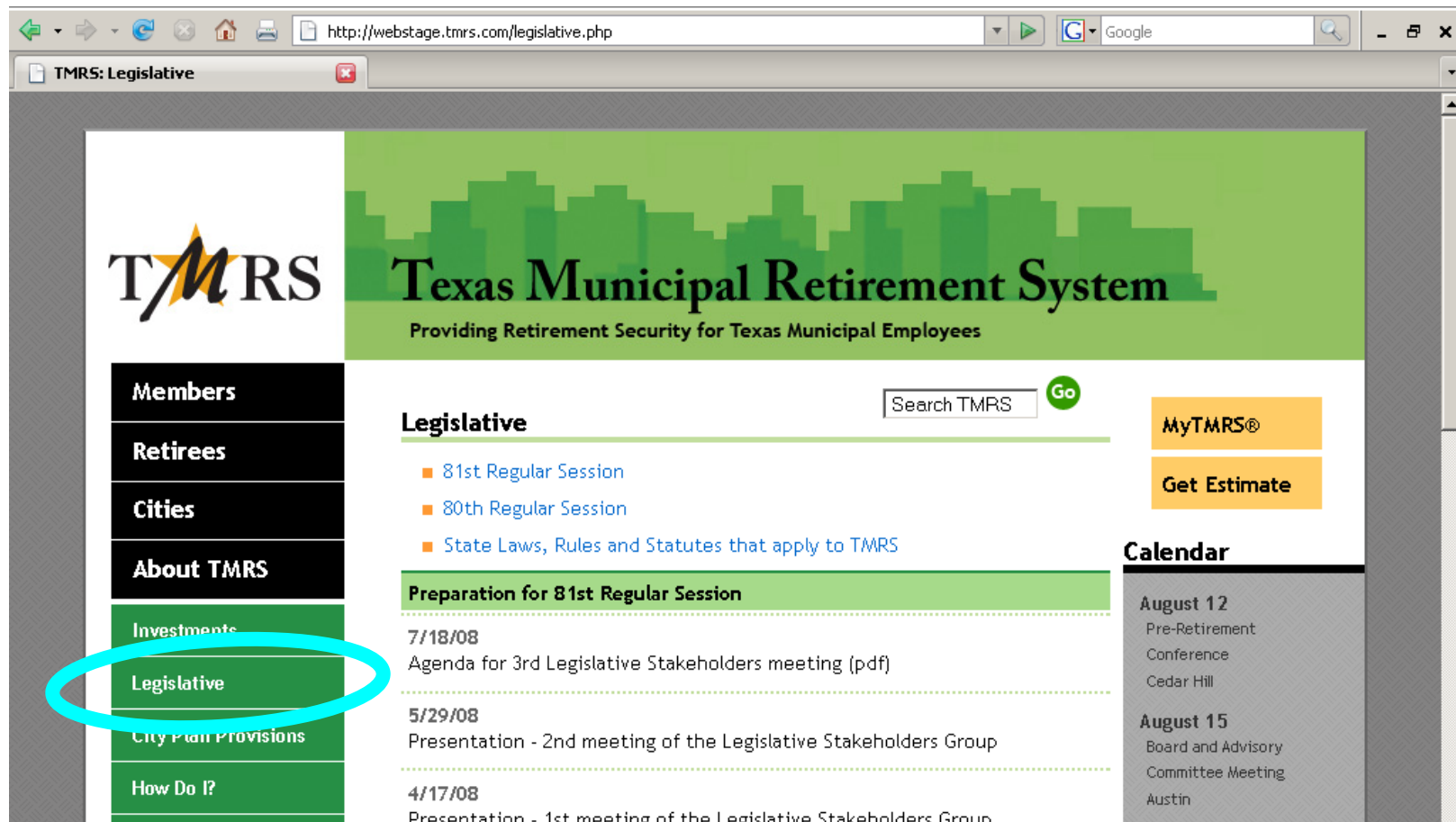
TMRS 2009 Legislation

- ◆ **Passage of these provisions will:**
 - ◇ **Allow continued diversification of the fund**
 - ◇ **Ability to credit unrealized gains and losses**
 - ◇ **Protect member benefits**
 - ◇ **Set interest credit rate and annuity purchase rate at 5%**
 - ◇ **Help mitigate higher city contribution rates**
 - ◇ **Continue diversifying portfolio for higher return**
 - ◇ **Allow TMRS to build a reserve for “bad years” to stabilize rates**



Web Updates

- ◆ Easiest way to keep track of the progress of the 2009 TMRS proposal / legislation





Questions & Answers