

# TMRS & CITIES

## A WINNING TEAM

### TMRS Legislation and Overview

# Legislative Success

- HB 360, by Kuempel, et al. (Senate sponsor Williams) – 81<sup>st</sup> Texas Legislature
- Effective immediately
- Contains Board's recommendations based on interim work of the Legislative Stakeholder Group (now the TMRS Advisory Committee)
- TMRS Board did not support or oppose any other legislation

# New Law – HB 360

- Establishes a 5% minimum interest credit for member accounts and a 5% minimum discount rate used in setting the annuity purchase rate for retirees
- Allows the crediting of interest to city accounts at a rate different from member accounts
- Allows the crediting of interest, including negative interest, to city accounts at a variable rate

# ***What Else Does the New Law Do?***

- Enables further diversification of TMRS investments
- Keeps city contribution rates from immediately rising further by supporting a higher, but conservative investment income assumption, resulting from diversification
- Allows for variable interest crediting rate
- Establishes the basis for potential future gain-sharing between cities and members after sufficient reserves have accumulated
- Provides the basis for stabilization of municipal contribution rates

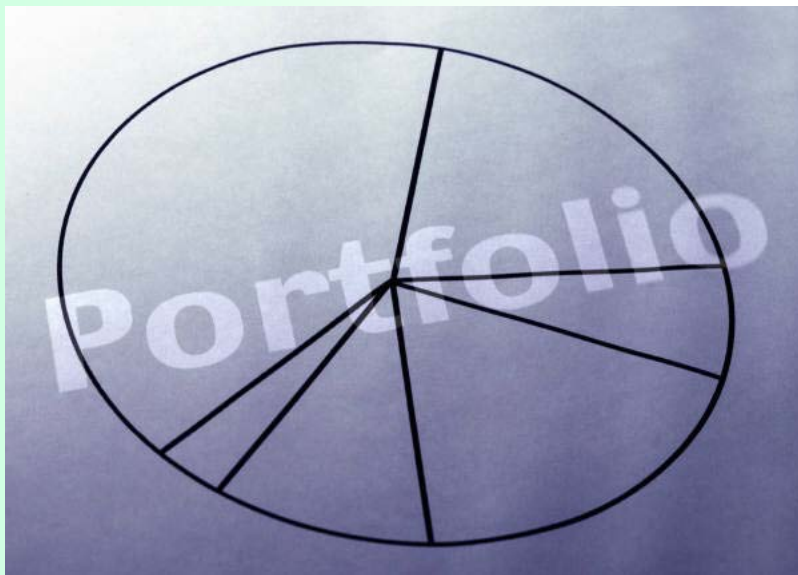
# What's Next?

- Investment diversification
- Actuarial topics
- Legislative interim work
- Customer service improvements
- Federal legislation - issues



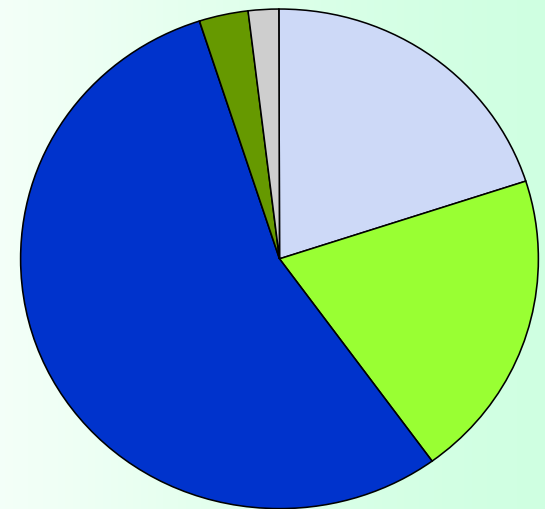
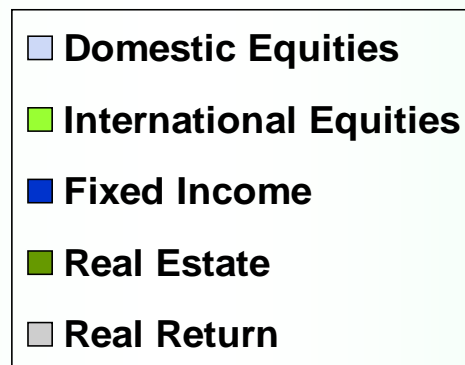
# Investment Diversification

- Was on hold pending passage of HB 360
- At June 2009 meeting, TMRS Board approved change in investment policy to begin full diversification



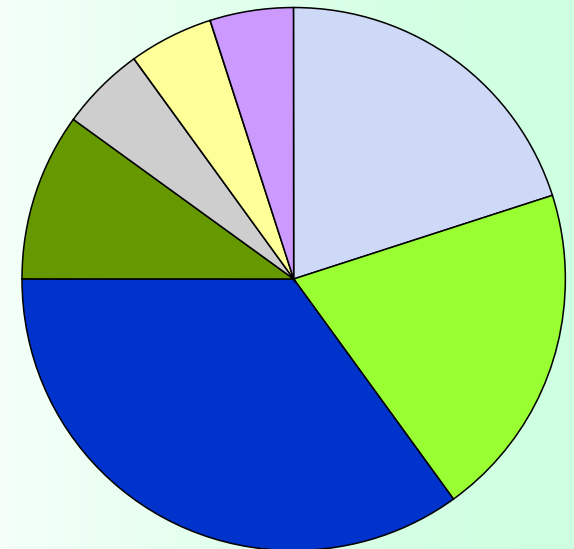
# Interim Target by End of 2010

- 40% Equities (20% each to Domestic and International)
- 55% Fixed Income
- 3% Real Estate
- 2% Real Return



# Proposed Target by End of 2013

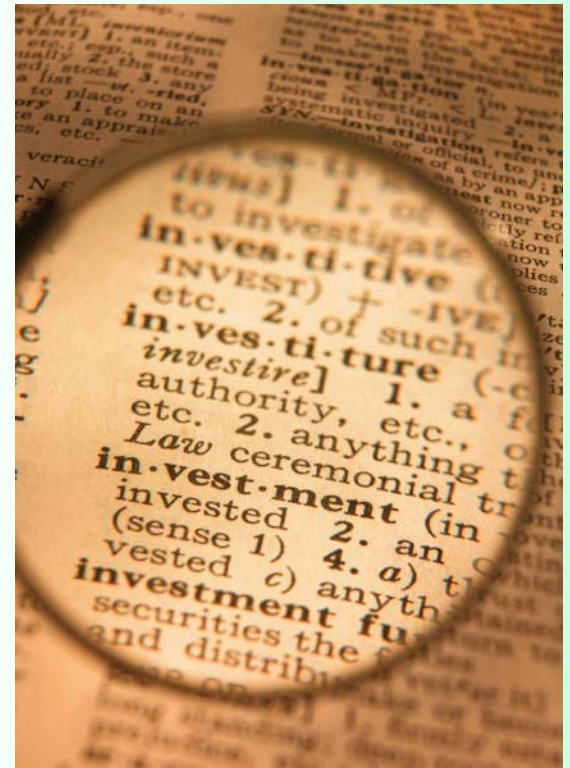
- 40% Equities (20% each to domestic and international)
- 35% Fixed Income
- 10% Real Estate
- 5% Absolute Return
- 5% Real Return
- 5% Private Equity



# As Diversification Continues...

- Returns should rise to help fund benefits
- Investment risk becomes more manageable

*Remember that diversification will not be complete for 5 years*



# Recent TMRS Board Actions



- Approved an amortization policy for ad hoc benefits
- Approved a policy for closed plans (shutting off TMRS benefits to new employees)

# Amortization Policy for Ad Hoc Benefits

- Effective for ad hoc benefit increases adopted after December 31, 2009; will affect contribution rates beginning in January 1, 2011
- Ad hoc benefit increases will be funded by level dollar contributions over a 15-year period
- Change means that ad hoc benefits are fully funded over an appropriate period as a standalone financial arrangement
- Contribution rates for cities adopting ad hoc benefits will be slightly higher

# Closed Plan Policy

- A few cities have asked about turning off TMRS benefits for future employees (closing the plan)
- Closed plans will be funded by level dollar contributions over 20 years, though longer or shorter periods may be appropriate for some cities
- Closing a plan may result in a higher immediate cost for cities, especially in conjunction with starting a new plan for future employees

# Building a Reserve

- Interim work will focus on reserve guidelines
- TMRS has always had a reserve, but reserve will be more important going forward
- Reserve guidelines and asset smoothing will help keep city rates relatively level from year to year
- Reserve could also help provide basis for future gains-sharing
- Building a reserve in current economy while diversifying portfolio will be challenging

# City Rates in the Future

- Under HB 360, interest allocations to cities may vary widely from year to year
- The long-term expected return on the total portfolio is 7%, while the expected MAF crediting rate is 7.5% due to other funds receiving 5%
- Actuarial smoothing will reduce annual fluctuations
- Reserve guidelines and policy for smoothing will be developed before the 12/31/09 valuation

# Help with Rate and Actuarial Issues

- Contact your TMRS Regional Manager
- Staff actuary at TMRS can provide more detailed projections



# 81<sup>st</sup> Legislative Interim

- TMRS Advisory Committee, formerly the Legislative Stakeholder Group (LSG), will discuss and consider potential recommendations for legislative package
- TMRS Board of Trustees will consider any recommendations proposed by the Advisory Committee

# TMRS Advisory Committee

- 19-member advisory body
- Combines former Advisory Committee with 2008 Legislative Stakeholder Group
- Representatives from management, employees, public safety, and elected officials
- Will make recommendations to Board for 2011 legislative session
- At its August meeting with the Advisory Committee, the TMRS Board appointed April Nixon as Chair and Roy Rodriguez as Vice-Chair

# Prospective Legislation



- TMRS Board will adopt legislative package with input from the Advisory Committee
- Issues resulting from Board deliberations on funding may be included
- 82<sup>nd</sup> Texas Legislature convenes on January 11, 2011

# TMRS – Taking Care of Business

- Continued commitment to transparency and communication
- New benefit calculator on TMRS website
- City service portal development in progress
- Retirement counseling at record levels



# Federal Legislation

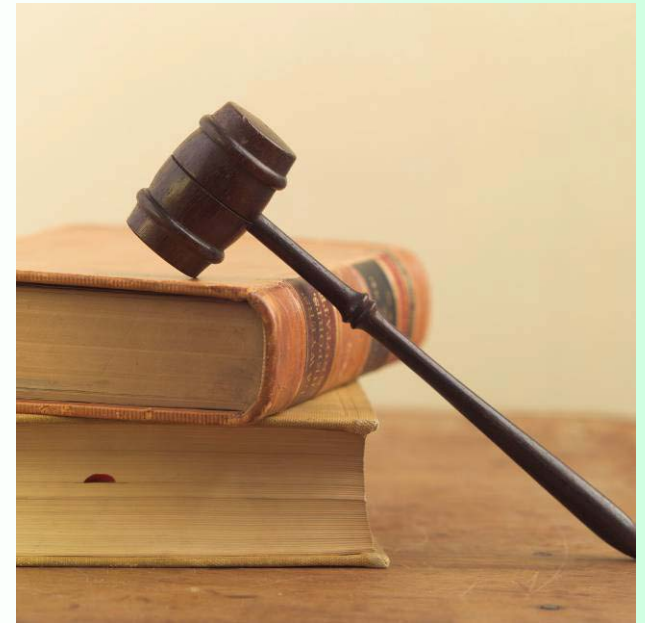
- Healthcare Enhancement for Local Public Safety (HELPS) Retirees allows retired public safety officers to use up to \$3,000 tax free for retiree health premiums
- Passed as part of Pension Protection Act of 2006
- Must be administered by the retirement system (direct payments from retirement system to health plan)

# Federal Legislation

- The Worker, Retiree, and Employer Recovery Act of 2008
  - Technical corrections legislation for the Pension Protection Act of 2006
  - Clears up the provision that would have confined interest crediting systems, like TMRS, to credit interest at a “market rate of return”
  - Clarifies that the HELPS provision was extended to “self-directed” plans

# Federal Legislation

- Healthcare Enhancement for Local Public *Service* Retirees (HELPS II) H.R. 1413
- Fixes administrative issues
  - No more direct payments
  - Eliminates the “normal retirement date” issue
- Expands benefit to
  - All public sector retirees
  - Adds survivor benefit
  - Indexes \$3,000 benefit



# Defined Benefit Fix for Public Safety Employees

- Pension Protection Act of 2006 also had provision that allowed public safety employees to take lump sum distributions from their plans at age 50 without the 10% early distribution tax
- H.R. 721 would address:
  - Rollover into another qualified plan
  - Recapture tax issue

# Social Security Reform



- No significant activity
- WEP/GPO Repeal or modification of formula
  - H.R. 235
  - H.R. 1221
  - S. 490

# Federal Issues - Normal Retirement Age

- IRS published regs to define a “normal retirement age.”  
Must be an age that is not earlier than the earliest age that is reasonable representative of the typical retirement age for the industry in which the covered workforce is employed. Assumed reasonably representative:
  - Age 55 for non-public safety
  - Age 50 for qualified public safety employees
- Could affect in-service distributions and return to work policies and other policies that relate to “normal retirement age”
- Effective date delayed for governmental plans to 1/1/2011

# **Federal Issues – Regulatory Environment**

- Increased IRS enforcement efforts
- IRS working on process for increased enforcement
- Continued concerns regarding scope, lack of guidance, IRS involvement
- Securities and Exchange Commission
- U.S. Treasury
- GAO Study - On Behalf of U.S. Senate Finance Committee

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# **QUESTIONS?**