

# TMRS & Cities – Staying in Tune

## Legislative Update

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# TMRS & Cities – Staying in Tune

The background features a light blue and green gradient. In the center, there is a faint, semi-transparent image of the Texas State Capitol building. Overlaid on the left side of the image are several musical notes and a treble clef, rendered in a light blue color. The text 'TMRS & Cities – Staying in Tune' is written in a large, bold, blue font with a slight shadow effect, positioned at the top of the slide.

## **Texas Legislation**

# 2008

- TMRS created Legislative Stakeholder Group to devise recommended legislation, resulting in introduction of HB 360
- Board expanded Advisory Committee to include Legislative Stakeholder Group
- Cities with contribution increases were allowed to pay phase-in rates beginning in 2009

# 2009 – HB 360

- HB 360, by Kuempel, et al. (Senate sponsor Williams) passed in 81<sup>st</sup> Texas Legislature
- Bill took effect 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

# HB 360

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

# HB 360, cont.

- Enabled further diversification of TMRS investments
- Kept city contribution rates from immediately rising further by supporting a higher investment income assumption, resulting from diversification
- Provided the basis for stabilization of municipal contribution rates
- Established the basis for potential future gain-sharing between cities and members after sufficient reserves have accumulated

# If HB 360 had not passed...

- Investment diversification could not have continued
- Assumed rate of future fund earnings would have dropped from 7% to approximately 5%
- Member interest credits would have fallen below 5% in a few years
- City contribution rates would have increased up to 50%, due to lower earning assumption

# TMRS Advisory Committee

- Nineteen-member body
- Combines former Advisory Committee with 2008 Legislative Stakeholder Group
- Representatives from management, employees, retirees, public safety, and elected officials
- Tasked with reviewing legislative proposals for 2011 legislative session
- Chair is April Nixon, and Vice-Chair is Roy Rodriguez

# Preparing for 82<sup>nd</sup> Session

- TMRS Advisory Committee met five times this interim to discuss proposals for the TMRS legislative package
- Issues the committee discussed:
  - Fund Restructuring
  - Alternative plan structure (such as “tiered” plans)
  - Flexible cost of living adjustment
- In August, the Advisory Committee voted unanimously to propose ONLY the Fund Restructuring proposal to the TMRS Board

# Preparing for 82<sup>nd</sup> Session

- At its August meeting, the Advisory Committee also reviewed a DRAFT of the Fund Restructuring legislation
- The TMRS Board was presented the Advisory Committee proposal at its September 24<sup>th</sup> meeting
- The Board reviewed and acted on the draft legislation at that meeting
- 82<sup>nd</sup> Texas Legislature convenes on January 11, 2011



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**Federal Legislative  
and Regulatory Issues**

# Current Issues

- GAO report on State and Local Government Plans — Governance Strategies and Long Term Investment Strategies
- Congressional debate on public plan funding
- Corporate governance
- GASB policies addressing the reporting of assets by defined benefit plans
- GASB Preliminary View

# Federal Agency Interest in Public Plans

- Securities and Exchange Commission
  - New SEC Enforcement Division Unit on Municipal Finance and Public Pensions
  - SEC Informal Inquiry into Public Plans

# Federal Agency Interest in Public Plans

- IRS
  - Governmental Plans Compliance Initiative
    - Determination Letters
  - Definition of Governmental Plan
    - Notice of proposed rulemaking expected, followed by...
    - Series of town hall meetings, proposed regs, and final regs
    - Concerns expressed regarding participation of association, union, non-governmental employees, organizations lacking “full faith and credit” authority

# Federal Regulatory 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 the 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 employees
    - Age 50 for qualified public safety employees

# Federal Regulatory Issues

- Normal Retirement Age, cont.
  - Could affect in-service distributions, return-to-work policies, and other policies that relate to “normal retirement age”
  - Effective date delayed for governmental plans to 1/1/2011

# Healthcare Enhancement for Local Public Service Retirees (HELPS II) – HR 1413

- Extend eligibility to all retired state and local retirees
- Provide for tax deduction vs. exclusion and eliminate direct payment to the insurer by the pension plan
- Allow non-itemizing taxpayers to claim tax deduction
- Add survivor benefit
- Remove requirement that retirees attain “normal retirement age”
- Allow an annual inflation adjustment beginning after 2009



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**QUESTIONS?**