



Funding, Investments, and Legislative Seminar

“Why the 81st Legislature Is the Most Important Session in TMRS’ History”

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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 140 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

Bill Passage

- ◆ When a 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 (PPA) Technical Corrections Legislation

- ◆ Interest Credit Issue
 - ◇ Pension Protection Act (PPA) 2006
 - ◇ Interest Credit to be set at a rate no greater than the market rate of interest
- ◆ Technical Bill was passed and signed into law in December 2008 - HR 7327 (Worker, Retiree, and Employer Recovery Act of 2008)
- ◆ 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

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
- ◆ Effective Date of Regulations moved to 2011 for Government plans

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 regulations



Federal Legislation / Issues, cont.

Increased IRS Enforcement Efforts

- ◆ In April 2008, IRS launched their Governmental Plans Initiative
- ◆ IRS working on process for increased enforcement
- ◆ Concerns regarding scope, lack of guidance, IRS involvement
- ◆ In February of 2009, the IRS distributed a questionnaire to 25 public pension plans intending to solicit basic information regarding administration of public plans and their compliance with IRS Code regulations. The material was also posted on the IRS web site.
- ◆ IRS hopes to get “good feedback” during the 90 day public comment period, which should end in May of 2009

TMRS Legislation

HB360/SB908

- ◆ Most important since the System was created
- ◆ HB 360, sponsored by Kuempel, and SB 908 by Williams, contain three key 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



80th Legislative Interim – Outcome

- ◆ House Pension and Investments Committee interim charge: to review the impact of return to work in TMRS
- ◆ Appeared before committee as technical resource to further discuss return to work
- ◆ The committee recommended allowing return to work, as long as it does not jeopardize the qualified status of TMRS
- ◆ Interim work with TMRS Legislative Stakeholder Group
 - ◇ Developed provisions in HB360/SB908

HB 360 Support

The interim report of the House Pensions and Investments Committee to the 81st Texas Legislature recommended:

“In order to continue to provide the benefits promised to municipal employees and retirees, the system will need statutory changes and the Committee (House P&I) recommends that the legislature approve the agreed-to legislation that resulted from the stakeholders work in the interim.”

Legislative Committees - 81st Session

- ◆ The Senate State Affairs committee will continue to hear pension legislation
- ◆ Committee is Chaired by Senator Duncan
- ◆ The Speaker merged the House Pensions and Investments Committee with the House Financial Services Committee for the 81st Legislature
- ◆ House Committee on Pensions, Investments, and Financial Services
 - ◇ TMRS provided testimony to the committee on February 25, 2009

TMRS Legislative Stakeholder Group

- ◆ Formed in May 2008
- ◆ Goal — to solicit feedback and input from group and build consensus around the core elements necessary to:
 - ◇ Continue diversification
 - ◇ Achieve higher investment return
 - ◇ Lower contribution rates
 - ◇ Guarantee benefits to employees
- ◆ Included 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 adopted recommendations.

LSG Recommendations

- ◆ Four recommendations 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
- ◆ TMRS Legislation was reviewed by LSG to be considered by TMRS Board in September. TMRS Board adopted legislative package.

LSG Recommendations/Discussion

- ◆ The LSG discussed various recommendations.
 - ◇ Gain sharing
 - ◇ Increasing the member interest credit
 - ◇ Return to work
 - ◇ Restructuring of Cost of Living Adjustments
 - ◇ Restructure vesting requirements
 - ◇ Two-tiered system
 - ◇ Proposed smoothing for rate stabilization
 - ◇ Include a sunset provision to legislation/investment authority

- ◆ Although other recommendations were discussed, the consensus with the LSG and TMRS Board was to focus on the three provisions in the TMRS legislation.
- ◆ Although there are other legislative proposals currently in the session, the only Board adopted legislative proposals are in HB360/SB908.
- ◆ The LSG concurred that the recommendations adopted would prove critical for this session. A “to-do” list for the 2011 session already in the works.

TMRS Stakeholder Group

- ◆ In September, the TMRS Board approved a charter that would incorporate the member groups in the LSG with the TMRS Advisory Committee on Retirement Matters
 - ◇ Arlington Professional Firefighters Association
 - ◇ City of San Antonio
 - ◇ Combined Law Enforcement Association of Texas
 - ◇ Government Finance Officers Association of Texas
 - ◇ Service Employees International Union – San Antonio
 - ◇ Texas City Management Association
 - ◇ Texas Municipal Human Resources Association
 - ◇ Texas Municipal League
 - ◇ Texas Municipal Police Association
 - ◇ Texas State Association of Fire Fighters
 - ◇ Several local elected officials

New Advisory Committee

- ◆ **Allen Bogard**, City Manager, City of Sugar Land
- ◆ **Keith Brainard**, City Councilmember, City of Georgetown
- ◆ **Ronald E. Cox**, Former Board Member
- ◆ **Dr. Susan Helt**, Director of Public Information, City of Plano
- ◆ **Michelle R. Leftwich**, Asst City Manager/Planning Dir., City of Mercedes
- ◆ **John Lewis**, City Councilmember, City of North Richland Hills
- ◆ **Lynn McIlhaney**, City Councilmember, City of College Station
- ◆ **Randle Meadows**, President of the Arlington Police Association
- ◆ **Jim Moore**, Assistant Fire Chief — Operations, City of Mesquite
- ◆ **David Crow**, Arlington Professional Fire Fighters
- ◆ **Chris Heaton**, Texas Municipal Police Association
- ◆ **Scott Kerr**, Texas State Association of Fire Fighters
- ◆ **Suzanne Levan**, City of San Antonio
- ◆ **Richard Martinez**, Service Employees International Union, San Antonio
- ◆ **Jim Parrish**, Texas Municipal Human Resources Association
- ◆ **Mike Perez**, Texas City Managers Association
- ◆ **Bob Scott**, Government Finance Officers of Texas (GFOAT)
- ◆ **Mike Staff**, Combined Law Enforcement Associations of Texas (CLEAT)
- ◆ **Monty Wynn**, Texas Municipal League

House Bill 360-Senate Bill 908

- ◆ Passage of these provisions will:
 - ◇ Allow continued diversification of the fund and mitigate investment risk
 - ◇ 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 in the long run
 - ◇ Allow TMRS to build a reserve for “bad years” to stabilize rates

Other Legislation that May Affect TMRS

- ◆ Coalition of cities is seeking a new COLA structure for the System
- ◆ Employee associations are proposing to make the TMRS Advisory Committee statutory

The TMRS Board takes no position with regard to these proposals, but TMRS staff are available to act as technical resources during legislative deliberation.

Web Updates

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

The screenshot shows a web browser window with the URL <http://webstage.tmrs.com/legislative.php>. The page features the TMRS logo and the text "Texas Municipal Retirement System" with the tagline "Providing Retirement Security for Texas Municipal Employees". A left-hand navigation menu includes links for "Members", "Retirees", "Cities", "About TMRS", "Investments", "Legislative" (highlighted with a red circle), "City Plan Provisions", and "How Do I?". The main content area is titled "Legislative" and includes a search bar and a "Go" button. Below this, there are links for "81st Regular Session", "80th Regular Session", and "State Laws, Rules and Statutes that apply to TMRS". A section titled "Preparation for 81st Regular Session" lists dates and events: "7/18/08 Agenda for 3rd Legislative Stakeholders meeting (pdf)", "5/29/08 Presentation - 2nd meeting of the Legislative Stakeholders Group", and "4/17/08 Presentation - 1st meeting of the Legislative Stakeholders Group". On the right, there are buttons for "MyTMRS®" and "Get Estimate", and a "Calendar" section listing events for "August 12" (Pre-Retirement Conference, Cedar Hill) and "August 15" (Board and Advisory Committee Meeting, Austin).

Questions & Answers

