

Benefits Administration Training

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Texas Municipal Retirement System

Eric Davis, Deputy Executive Director



Overview/Agenda

This module provides an overview of TMRS, its benefit structures and administration. The following topics are addressed:

- Basic types of plan design
- Tax qualified pension plan requirements
- How benefits are calculated within the TMRS Plan
- The Board's role in managing benefits and services
- Contested cases and appeals that may require Board action;
- Methods of communicating with members
- Member and member city services, communication and outreach

Types of Benefit Plans

Objective:

- Understand the features of defined benefit, defined contribution and hybrid plans
- Be aware of the tax qualified pension plan status under the Internal Revenue Code (IRC)

Basic Types of Plan Design

Defined Contribution Plan (DC Plan)

- A retirement plan in which the benefit is based on the amount of money in the individual participant's account at retirement
- The contribution is defined, not the benefit
- Participant (employee) bears the investment risk
- Examples include 401(k)s, 403(b)s and 457 deferred compensation plans

Defined Benefit Plan (DB Plan)

- A retirement plan in which the benefit paid to the employee is based on a formula determined by statute, regulation or plan document, and not determined by the account balance
- The benefit is defined, not necessarily the contribution amounts
- Employer bears the investment risk
- DB plans are usually tax qualified pension trusts under Section 401(a) of the Internal Revenue Code (IRC)

So What is TMRS?

Hybrid Defined Benefit

- Has DC features of fixed employee contribution and employer matching ratio
- Has DB features of prior service credit, Updated Service Credit, COLA and lifetime benefit payment
- Benefit is defined as the total reserves at retirement paid out under one of the seven retirement options for the retiree's lifetime
- TMRS is a tax qualified trust under IRC Section 401(a)

TMRS Plan Design (Cash Balance)

| DB Feature | Optional DB Features | DC Feature |
|--|--|---|
| Assets are centrally, professionally invested | *Updated Service Credits – help protect member’s benefits from inflation | **Employer sets the mandatory employee deposit rate |
| Employers bear investment risk, but receive interest based on actual rate earned | *Annuity Increases (COLAs) either repeating or Ad Hoc | ***Employer sets matching ratio |
| Member accounts receive 5% annual interest credit | | Annuity is based on account balance (deposits, interest, catch, other credits), not a formula based on average salary |
| Account balance is annuitized at retirement and benefit is guaranteed for life | | |

* May be adopted, modified or rescinded by employer

** May be changed by employer after initial adoption; consent of employees needed to lower rate

***May be changed by employer after adoption

Tax Qualified Plans

A qualified plan is an employer-sponsored retirement plan that qualifies for special tax treatment under IRC Section 401(a)

- Plan (System) must satisfy IRC in both form and operation
- A Determination Letter provides assurance as to the form of the plan document
- Plan must continue to meet requirements to remain qualified

If not a qualified plan

- Employee taxed on employer contributions to plan
- Plan distributions ineligible for rollovers
- Mandatory employee contributions ineligible for pre-tax treatment under IRC Section 414(h)(2)

Selected Tax Issues

Certain Tax Issues Important to TMRS

- IRC Section 401(a) – DB Plan benefit must be “definitely determinable”
- Contributions “picked-up” (tax deferred) under IRC Section 414(h)(2) – so tax deferred
- PLSD – treated as a refund, so may have tax + 10%. Eligible for roll-over
- Limitations on benefits (IRC Section 415), salary (IRC Section 401(a)(17)), etc.
- Excess Benefit Arrangement

Governance

Objective:

- Understand the responsibility of the Board as it relates to benefits administration
- Understand the responsibility of staff for day-to-day operations

What is TMRS?

- **Created by Texas Legislature in 1947**
- **Administered in accordance with TMRS Act, and rules adopted by the Board of Trustees**
 - Act: Texas Government Code, Title 8, Subtitle G; and
 - Rules: Texas Administrative Code, Title 34, Part 6
- **Non-traditional, joint contributory, hybrid defined benefit plan**
- **Agent-multiple employer public employee retirement system**

Who Governs TMRS?

§855.001-§855.009 of TMRS Act provides the governance of TMRS is entrusted to a six-member Board of Trustees

- **Three Executive Trustees**

- Must be chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality
- This can include elected officials

- **Three Employee Trustees**

- Must be an employee of a participating municipality

Who Governs TMRS? (cont.)

- **Trustees hold office for staggered six-year terms**
- **Each Trustees must take an oath of office before serving**
- **Serve without compensation but are reimbursed for expenses**
- **Each Trustees has one vote**
- **Statutory Board meetings each March, June, September and December as well as others as called; usually eight per year.**

Plan Design Features

Objective:

- Read and interpret the component parts of plan design (including retirement eligibility, vesting requirements, benefit calculation and cost-of-living-adjustments (COLAs or Annuity Increases) .
- Be familiar with additional benefits such as Partial Lump Sum Distributions.

TMRS' Plan of Benefits

Basic Plan Options

Employee Deposit Rate: 5%, 6% or 7% (3% employee deposit rate is no longer an option for cities to adopt, but 3 cities still have this rate)

City Matching Ratio: 1 to 1, 1½ to 1 or 2 to 1

5-Year Vesting (58 cities elected to revoke 5-Year Vesting prior to December 31, 2001)

Retirement Eligibility:

- 5-Years/Age 60, 20-Years/Any Age is most common
- Other combinations include 10-Years/Age 60 and 25-Years/Any Age depending on city adoptions

*Options underlined are most common

TMRS Plan of Benefits

Optional Plan Features

- **Updated Service Credit (USC):** 100%, 75% or 50% adopted on either an Ad Hoc or annually repeating basis
- **Annuity Increases (COLA):** 70%, 50% or 30% of CPI adopted on either an Ad Hoc or annually repeating basis. Must be adopted with USC.
- **Supplemental Death Benefit (SDB):** Can provide for active employees alone or both active employees and retirees
- **Military Service Credit**
- **Restricted Prior Service Credit**
- **Buy-Back of previously forfeited TMRS credit**

TMRS Plan of Benefits

- **Except for required features, plan of benefits is determined by the participating city (local control)**
- **Several features can be increased, decreased or terminated (Employee Deposit Rate, Matching Ratio, USC, COLA or SDB), but other features cannot be changed once adopted (Vesting and Retirement Eligibility)**
- **An actuarial study is prepared for a city wanting to make a change to its plan of benefits**

Board's Responsibilities Regarding Benefits Administration

Board is Responsible for:

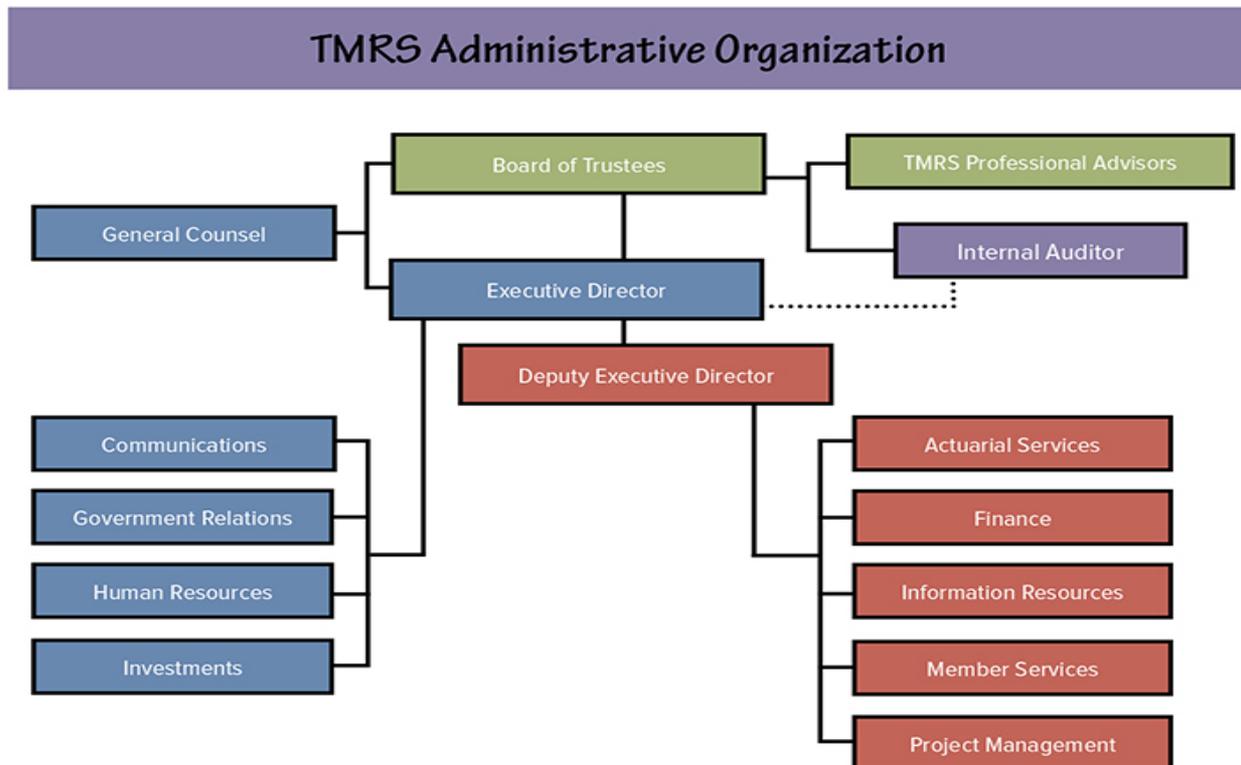
- Administration of the Retirement System
- Appointing/Employing officials and employees of the System
- Adopting Rules under Texas Administrative Code for the effective and efficient administration of the System
- Administering System Assets
- Consider all applications for annuities and benefits payable under the TMRS Act
- Determine the amount of cash on hand required to pay benefits and the expenses of the System
- Having the accounts of the System audited by a CPA
- Designating authority, by resolution, to one or more representatives to sign vouchers for payments from the assets of the System
- Adopting Rates and Tables to be used in administration of the System, including a discount rate that is not less than 5%

Board's Responsibilities Regarding Benefits Administration (cont.)

- **Annually certifying contribution and Supplemental Death Benefit Rates**
- **Maintain a permanent record of all proceedings of the Board**
- **Cause to be kept in a convenient form the data necessary for required computations and valuations by the actuary**
- **Obtain from members or participating cities information necessary to properly administer the System**
- **Ratifying USC and COLA adoptions on an annual basis**
- **Approving plans merging into the System (very infrequent)**
- **Reviewing and acting on rulings on claims disputes issued by the State Office of Administrative Hearings**

Staff Responsibilities Regarding Benefits Administration

Staff is responsible for the day-to-day operations of all aspects of benefits administration.



TMRS' Drop Partial Lump Sum Distribution (PLSD)

TMRS does not offer a traditional Deferred Retirement Option Provision (DROP). Rather, TMRS offers a PLSD, which was designed to provide a benefit similar to a DROP, but which works under a cash balance plan design.

TMRS' PLSD:

- At retirement, each employee has the option to elect to receive a PLSD
- Calculated by multiplying the Retiree Life Only option by 12, 24 or 36
- Cannot exceed 75% of the members individual deposits and interest (accumulated contributions)
- Calculated after the total reserves of the member are determined; PLSD therefore does not lower the city's matching amount
- Can be taken as a direct payment (taxable in the year taken), as a rollover to another tax qualified account (taxes remain deferred until the retiree receives the funds), or split between the two methods
- Taking a PLSD will lower the amount of the monthly benefit received by the retiree and will ultimately result in a smaller COLA, which is based on the monthly benefit

Qualified Domestic Relations Orders (QDROs)

Objective:

- **Be familiar with Qualified Domestic Relations Order (QDRO) requirements.**

“Community Property”

- **The portion of a person’s retirement benefit earned during marriage is “community property” — property owned by both the husband and the wife, regardless of who “earned” that benefit**
- **A divorce decree or other domestic relations order must state whether the benefit is retained by the member or divided between the member and spouse**
- **If the decree or order does not do either, the community property continues to be jointly owned and the member may need to go back to court and obtain the proper orders, or promptly reach an agreement with a former spouse**

What is a QDRO?

- **Once TMRS is notified in writing that a divorce is pending, the member's account is flagged so that payments are not made — necessary to preserve this marital asset since viewed as community property**
- **Once an account is flagged for a divorce, payment is not made until TMRS receives one of the following:**
 - **A certified copy of a Decree of Divorce awarding the entire benefit to the member**
 - **A certified copy of a Domestic Relations Order (DRO)**
- **Upon receipt of the document, TMRS will notify all parties whether the document complies with the rules governing the System for “qualification” — QDRO**

QDRO (cont.)

- **If the DRO does not qualify, the parties must commence action within 90 days to bring the order into compliance**
- **If TMRS is not notified that action has begun, after the 90 days the DRO will be determined not to be a QDRO and the System will pay any sums to the member as if no order had been received**
- **If the issue of whether a DRO is a QDRO is not resolved after 18 months, the System will pay the member all sums that have been withheld and thereafter make payment of benefits as if no order had been received**

Benefit Payment Under QDRO

- **When a QDRO is on file with TMRS, the retirement benefit is not distributed either to the member or to the alternate payee until:**
 - The member terminates covered employment and applies for a refund, or
 - The member becomes eligible to and applies for a monthly retirement benefit
- **A member should review their beneficiary designation once the divorce is final.**
- **The TMRS publication “Divorce and Retirement” is available on the System’s web site.**

Correction of Errors

Objective:

- **Be aware of provisions relating to correction of errors in benefit calculation or crediting of service credit**

Correction of Errors

- **The TMRS Act allows TMRS to correct:**
 - An error in current service performed, or current service credit that should have been received, no more than 4 years before the date the application for the correction is received by TMRS; and
 - An error in prior service credit if an application is received no more than 4 years after the later of the city's date of participation or the person first became a member of TMRS
- **The TMRS Act and TMRS' Correction of Errors Policy allow the Member Services Department to correct payroll reporting errors, including corrections to member deposits, city contributions, service credits, interest adjustments and member accounts in general**

Correction of Errors (cont.)

- **To correct an error, TMRS must receive the following:**
 - An application from the City to correct the error, or a final judgment or administrative order that directs the city to correct the error
 - A supplemental payroll report detailing the months to be corrected; and
 - Payment from the city representing applicable member and/or city contributions
- **Every COE request requires approval by:**
 - a Member Services Manager
 - the Member Service Director
 - the Deputy Executive Director
 - TMRS' Legal Department, if the error involves litigation or administrative proceedings
- **Chapter 802 of the Government Code also provides procedures to be followed in the event TMRS discovers an error in its records that results in a person receiving more or less money than entitled to under the TMRS Act**

Appeals and Contested Cases

Objective:

- **Awareness of the System's processes for hearing appeals and contested cases**

Appeals and Contested Cases

- **Rules adopted by the Board regarding appeals and contested cases are outlined in Chapter 121 of the Texas Administrative code**
- **Applications must be filed in writing with the Executive Director at the System's office asserting any claim to any right or benefit under the Act**
- **If the Director finds from the records of the system and from documents supporting the application that the applicant is entitled to a service retirement benefit, the Director may allow the benefit and place it into effect without further hearing, unless a contest has been filed; benefits approved shall be reported to the Board at its next meeting for confirmation**

Denied Claims

- **If the Director determines that an application for benefits cannot be approved, the Director shall send a letter of notification informing the applicant that the claim is denied and stating the reasons therefor**
- **A claimant who desires to contest the action may obtain a hearing of the claim as a “contested case” pursuant to the Administrative Procedure Act (Chapter 2001, Government Code) by filing a written “request for hearing of denied claim” within 60 days**
 - **If no claim is filed within 60 days, the Executive Director’s decision becomes final and cannot be appealed**
- **Upon request for hearing the Executive Director shall cause the contested case to be docketed with the State Office of Administrative Hearings (SOAH) and request either a hearing or assignment of an Administrative Law Judge (ALJ)**

Contested Case Process

- **Following a hearing, the ALJ shall prepare a written proposal for decision for action by the Board of Trustees which shall contain:**
 - findings of fact and conclusions of law, and
 - if appropriate, a proposed order
- **Unless exceptions have been timely, the proposal for decision may be adopted at any date thereafter by written order of the Board**
- **Exceptions to the proposal may be filed within 20 days after date of service of a proposal**
- **The Board makes the final decision in all contested cases, normally based on a proposal for decision and any exceptions.**
 - Normally considered at next regular Board Meeting after time has expired for exceptions
 - All final decisions and orders of the Board are in writing and are signed by the Chair or Vice-Chair and the Executive Director
- **The Board's decision or order is considered final unless a motion for rehearing is filed, in which case another process outlined in the TMRS Rules is initiated**

Communications

Objective:

- **Understand the methods used to communicate benefit information to System members**

Communicating Benefit Information to System Members

- **Every member is mailed an Annual Benefit Statement that includes their individual account balance as of December 31 of the preceding year, estimates of their retirement benefit, and other pertinent information**
- **Retirees also receive an Annual Statement indicating the status of their benefits as of December 31**
- **Retirement estimates are available upon request from TMRS as well as MyTMRS**
- **Toll-free phone number (800-924-8677) answered by a live person**
- **Travel team:**
 - Regional pre-Retirement Seminars
 - Benefit fairs
- **One-on-one and walk in counseling**

Service Contact Volume for 2015

- **New benefit recipients: 3,259**
- **Average monthly benefit payments processed: 51,753**
- **Average New monthly benefit payments processed: 272**
(\$1,875 average monthly benefit paid)
- **Service Credit purchases completed: 69**
- **Refunds/withdrawals processed: 7,082**
- **Disabilities processed: 57**
- **Supplemental Death Benefits processed: 660 (112 actives, 578 retirees)**
- **Telephone calls answered: 84,142**
- **Email correspondence: 7,400**

Service Contact Volume for 2015

- **Field Education Meetings:**
 - Attendees: 24,890
 - Meetings: 198
- **Individual counseling appointments: 1,729**
- **MyTMRS retirement estimates: 176,973**
- **Newsletters sent to active and retired members:**
 - Active members – 2 newsletters were produced (INSIGHT)
 - ❖ Summer 2015 (includes PAFR): 123,500 printed and mailed
 - ❖ Winter 2015: 126,700
 - Retirees – 2 newsletters were produced (RetirementWise)
 - ❖ Summer 2015: 48,300
 - ❖ Winter 2015: 48,400

If Board Member Receives Question from Member or Retiree

- **Board communications are governed by the Board Communication Policy**
- **It is imperative for Trustee to avoid answering specific benefit questions from anyone — including members, inactives, retirees, benefit recipients, employers or other interested parties**
- **Anything a Trustee says could lead a member or beneficiary to take action (or fail to take action)**
- **It is best to refer members to the TMRS website where they can contact TMRS**
- **Tell members and retirees about TMRS' publications and forms retrievable from the TMRS website**
- **Call David Gavia, Eric Davis or Christine Sweeney if questions are a major concern to you**
- **Don't try to be a benefits counselor. That is not a Trustee's responsibility**

Current Issues and Trends

Objective:

- **Be familiar with current issues and trends in benefit administration**

From the Headlines

- **The TMRS weekly news summary provides you with an excellent collection of articles of current interest**
- **Stakeholder relations, outreach and communications are playing an increasingly important role in public retirement benefits**
- **Social media continues to be a communication trend that has garnered retirement system interest, but without any way to measure its benefits**
- **Self-service technology/transaction capabilities are critical to engaging multiple generations of members**
- **Protecting the confidentiality of member information and cyber security go hand-in-hand with the expansion of self-service capabilities. Boards are having discussions about what role they ought to play in the oversight of cyber risk**
- **The concept of states setting up retirement programs for private-sector workers is gaining traction, with help from the Department of Labor and policy makers in an increasing number of states**
- **In the private sector, there are new rules that specify more transparency in investment fee disclosure for retirement plans. DC Plans continue to be the primary retirement vehicle**

Summary

- **There are two primary types of retirement plans: DB and DC**
 - TMRS is fairly unique as a hybrid DB plan
 - Most public retirement plans are traditional DB plans
- **It is important for a plan to maintain its tax qualified status**
 - TMRS is designed and operated in a manner consistent with the IRC requirements for qualification
 - Changes in the retirement plan landscape are monitored so that updates can be made, as needed, on a timely basis
- **Each city has local control of its plan of benefits within the menu of options available**
- **The Board of Trustees is responsible for the overall administration of the System, with specific duties set forth in statute**

Summary (cont.)

- **The Executive Director is responsible for the day-to-day administration of TMRS**
- **Although TMRS does not offer a “DROP” option, it does offer a Partial Lump Sum Distribution**
- **A member’s TMRS benefit is considered community property under Texas Law; therefore, staff regularly process QDROs that split the benefit between a member and a former spouse**
- **Both staff and the Board of Trustees are involved in appeals and contested cases; however, the final decision is determined by the Board**
- **TMRS staff are experts in communicating the benefits and features of the plan to both member and cities using a wide variety of communication strategies**
- **Any and all member questions should be directed to TMRS staff**