

**September Board Meeting, GASB Update,
City Correspondent Training, Upcoming TML Conference**

September Board Meeting Report

The TMRS Board of Trustees met on September 21-22, 2011, to consider the following items:

- With the advice of TMRS staff and real estate investment consultant ORG Portfolio Management, the Board approved four new real estate managers as the next step in the diversification of the \$18.4 billion trust fund. Allocations to these managers represent the balance of the remaining \$300 million for real estate investments for the 2011 plan year. The total TMRS approved allocation to real estate for 2011 was \$500 million. TMRS' eventual target for real estate is 10% of assets.

The managers selected and their associated allocations are:

- H2 Capital, Core Debt Fund, \$100 million
- Miller Global, Value-Added Fund, \$75 million
- Greenfield Partners, Value-Added Fund, \$75 million
- Walton Street, Opportunistic Fund, \$50 million

These four firms will join previously selected real estate fund sponsors, Stockbridge Capital Group, LLC, and Harrison Street Real Estate Capital LLC.

- TMRS staff presented an educational session on the TMRS Investment Risk Management program. Although risk management has always been part of TMRS' investment program, the System has recently made it a dedicated function to better ensure that the investment program meets the System's funding objectives.
- TMRS investment consultant R.V. Kuhns presented the 2011 TMRS Asset/Liability Study. The asset/liability study clarifies the potential impact of the asset allocation decision on the financial health of the plan and will be used to guide and refine any future changes to the TMRS plan for diversification of the System's invested assets. The A/L Study reinforced that TMRS has a solid contribution policy and funding assumptions and that TMRS is in a strong position relative to many financially stressed public pension plans, both currently and prospectively. A copy of the presentation is available on the [Investments](#) web page.
- R.V. Kuhns presented a June quarterly investment report, and TMRS staff appended a report as of August 31. A [performance summary](#) is available on the TMRS Investments page.
- The Board ratified a temporary waiver of the credit rating requirement for U.S. Government Securities held in the core bond portfolio, pending a revision of the TMRS

Investment Policy.

- The Board's governance consultant presented a draft revision of the TMRS Strategic Plan. The Board will consider adoption of the plan later this year.
- The Board appointed Gary Watts, Mayor of the City of Shenandoah, to the TMRS Advisory Committee on Retirement Matters.
- The Board named Board member Frank Simpson as Chair of the Advisory Committee and Board member Julie Oakley as Vice Chair.
- To ensure compliance with federal law, the Board gave final approval to amend Rule 34 TAC Section 127.3, addressing compliance with Internal Revenue Code Section 415, and to amend 34 TAC Section 127.4, addressing compliance with the Uniformed Services Employment and Re-employment Rights Act (USERRA).
- The Board set meeting dates for 2012. The dates are available on the [calendar](#) on the TMRS website.

The next scheduled meeting of the TMRS Board of Trustees is October 12 (Wednesday), in Houston, in conjunction with the TML Annual Conference.

GASB's Exposure Draft on Proposed Pension Changes

The Government Accounting Standards Board (GASB) has issued two exposure drafts (EDs) on proposed changes in financial reporting for governments that provide pension benefits. The first ED, *Accounting and Financial Reporting for Pensions*, is an amendment of GASB Statement No. 27, which is applicable to the local government "Employer," or TMRS municipality. The second ED, *Financial Reporting for Pension Plans*, is an amendment of GASB Statement No. 25, which is applicable to the Plan, or TMRS (as the plan trustee or administrator). These proposals relate to the accounting and financial reporting of the municipality's pension plan — not to the funding of that plan.

Creation of Net Pension Liability

One significant change proposed is the creation of a net pension liability (NPL), which is similar to the current calculation of your city's unfunded actuarial accrued liability (UAAL). However, the NPL uses the Entry Age Normal (EAN) cost method and market value of assets, while the current UAAL is calculated under the Projected Unit Credit actuarial cost method and smoothed actuarial value of assets. In the past, UAAL was disclosed in the Notes to the Financial Statements within the Schedule of Funding Progress. As long as your city made its annual required contributions (ARC), no liability was reported on the Financial Statements. Under the proposed changes, the NPL will be recorded on the Financial Statements.

Change in How Annual Liability and Pension Expense are Determined

The second major change is the determination of your annual pension expense. Currently, the expense for most cities is their ARC, with an adjustment if a net pension obligation or asset exists. Under the proposed statements, the annual pension expense would be based on specific changes in the NPL from year to year. While the annual pension expense will be included in the cities'

financial statements, the cities' required contributions to TMRS will not be based on the determination of this pension expense but will continue to be an amount determined in accordance with actuarial standards of practice and state law.

The proposed GASB amendments require that the pension liability and expense be derived using the Entry Age Normal actuarial cost method. Currently, for funding or contribution rate calculations, TMRS' actuary uses the Projected Unit Credit cost method. The use of one cost method for accounting versus a different cost method for funding will result in differences between the numbers disclosed in your financial statements and the numbers required for actuarial funding purposes (or contributions). Remember that the NPL recorded in the Financial Statements does not mean that your city has to pay this immediately - the NPL is a long-term liability. Because GASB is separating the relationship between funding and accounting that currently exists, your yearly contributions to TMRS will not match the pension expense recorded on your income statement; nor will the NPL reported in your Financial Statements match the UAAL that is determined by the actuarial valuation for funding purposes.

Rolling NPL to Fiscal Year-End Date

Under the GASB proposal, the NPL will be "rolled" from the actuarial valuation date to the municipality's fiscal year end date. The actuarial valuation date of the TMRS plan year is December 31; therefore, if your city's fiscal year end is June 30 or September 30, additional adjustments for the 6- or 9-month periods to your fiscal year end would be required and could result in significant volatility. GASB is currently working with pension systems around the country that are serving as "field testers," reviewing this issue as well as other potential problems associated with the implementation.

Additional Requirements in Note Disclosures

There will also be more requirements in the note disclosures, including a plain-language discussion of the plan, actuarial methods and assumptions, investment policies, current and projected funding status, and a 10-year table of actuarial and market value of assets, liabilities, unfunded liabilities, and funded ratios.

If these changes are adopted as currently proposed, your city would be required to implement the new reporting in fiscal years beginning after June 15, 2013. We will continue to monitor the progress on these proposals and will provide updates on these proposed pension changes. GASB has extended the deadline for comments to the EDs until October 14 and will be holding public hearings about the EDs; for more information about these proposed changes, please visit the GASB website at www.gasb.org.

Correspondent Certification Training is Just around the Corner!

Sign up now for the best hands-on training for TMRS administration! The last course offered this year will be held in Austin on Tuesday and Wednesday, November 1 and 2. You do not have to be your city's designated Correspondent to take the course; employees in HR and those handling payroll are also encouraged to attend.

This comprehensive course (full day Tuesday, half day Wednesday) uses a case study format to demonstrate the TMRS benefit program throughout an employee's career, through retirement, and

beyond. The course manual highlights common issues you may encounter in administering the program. Subjects covered include: Correspondent Duties, City Rates, Member Enrollment, Service Credit, Refunds, Divorce, Disability, Buyback, Updated Service Credit, Retirement, Post-Retirement Issues, and Death Benefits. The final session offers City Portal Training for those who have not already signed up to use the City Portal.

A [registration form](#), course [agenda](#), and [hotel map / information](#) are available online. Print out and fax or mail the registration form with your check for \$75 to TMRS. Be sure to also reserve your room for the nights of Monday October 31 and Tuesday November 1 at either the Doubletree-University or the Sheraton for the government rate of \$108 per night. Both hotels have set up a web link so you can make reservations online: [Doubletree link](#) (group code is TMR; group rate available until October 20 or sold out); [Sheraton link](#) (group rate ends October 10).

TMRS will sponsor shuttle service to both hotels. After you have booked your hotel, if you would like us to pick you up, please send a note to communications@tmrs.com and let us know where you are staying.

TMRS at the TML Conference

TMRS Executive Director David Gavia and Chief Investment Officer Nancy Goerdel will present “An Update on the Texas Municipal Retirement System” on October 13, 2011 for the Texas Municipal League’s 99th Annual Conference in Houston. They will summarize recent TMRS history, the effects of the passage of SB 350, and information on the current status of TMRS investments.

Other members of the TMRS staff will be on hand at the TMRS booth to speak with the hundreds of attendees at the three-day conference at the George R. Brown Convention Center, 1001 Avenida de las Americas, Houston, October 11-14.

City Guides to be Updated Soon

The passage of SB 350 caused a major change in the structure of TMRS’ internal accounts. Therefore, the two booklets, “TMRS Facts for City Officials” and the “City Guide to USC & COLAs,” will be updated to reflect the changes.

TMRS plans to release new versions of these guides before the end of the year. While much of the information in the booklets is still accurate, the current versions are out of date in regard to TMRS fund structure.

NOTE - Previously issued e-bulletins are posted in the E-Bulletin section under the Publications page on the TMRS Website.