

June Board Meeting, Advisory Committee Meeting, GASB Approves New Accounting Standards, Audit Report on Contributions, CAFR Available on Web

TMRS Board of Trustees June Meeting

The TMRS Board of Trustees met on June 21 and 22 and considered the following items:

- The Board received the findings of the external audit for the System for the year ending December 31, 2011. The auditor issued an unqualified opinion and found no material weaknesses or significant deficiencies and identified no significant corrected or uncorrected adjustments during the audit.
- The Board approved the issuance of the *TMRS Comprehensive Annual Financial Report (CAFR)* for the year ended December 31, 2011 (this 257-page PDF may be downloaded in full or in sections from the [Publications web page](#)). Like last year, the CAFR will not be mailed to cities but is available on the website. The Summary Financial Report, or Popular Report (PAFR), will be sent to all TMRS members and retirees with the July issues of *INSIGHT* and *RetirementWise* and will also be posted to the website.
- The Board received the findings of the System’s Internal Auditor on the payroll reporting and contribution payment processes (see “TMRS Audit Report Findings” article, below).
- The Board approved the appointment of Neil Resnik, City Councilman from Addison, to the Advisory Committee on Retirement Matters.
- The Board considered several investment-related agenda items, including:
 - An education session on Absolute Return strategies.
 - A discussion on asset allocation philosophy in advance of the asset allocation study to be presented at a future meeting.
 - The ratification of staff’s decision to terminate contract negotiations with a Real Estate manager previously approved by the Board. Negotiations ceased by mutual agreement between TMRS and the prospective manager.
 - An investment report for the quarter ending March 31, 2012, and an updated month-end report for May 2012, posted on the website under [Investments](#).

The next meeting of the Board of Trustees will be August 16-17, 2012.

Advisory Committee Discusses COLAs and Gain-Sharing

The TMRS Advisory Committee on Retirement Matters met on June 21 to continue its interim examination of benefit topics that may be presented to the TMRS Board for potential legislation in the 2013 Regular Session of the Texas Legislature. Copies of the materials presented to the Committee can be found on the [Advisory Committee web page](#).

The Committee heard a presentation on the general outlook for the upcoming legislative session. The 2013 session will see an unprecedented number of relatively new first- and second-term members in the House, and a new Chair of the Pensions, Investments, and Financial Services Committee. There may also be bills proposing to replace the current defined benefit programs in place for public employees with defined contribution or hybrid plans. Although TMRS is considered a cash balance plan, which is a nontraditional hybrid defined benefit plan, the increasing scrutiny of public employee benefits may affect TMRS as well.

TMRS' consulting actuary, GRS, summarized preceding Advisory Committee meeting discussions of alternative Cost of Living Adjustments (COLAs). GRS also reviewed a type of COLA called a "variable COLA," which would allow a city to adopt an annually repeating, non-retroactive COLA that could be adjusted each year to 30%, 50%, or 70% of the annual change in the Consumer Price Index. Details of the proposal are still under discussion. Any benefit provisions recommended by the Committee will be reviewed by the Board. The Board, in turn, may include the recommendations as part of its legislative agenda.

GRS also presented extensive information on potential mechanisms for sharing of investment returns between members and cities (gain-sharing). The presentation concluded that: (1) across-the-board gain-sharing at the System level may not be actuarially supportable for some cities; (2) with strict guidelines and safeguards, a mechanism might be devised to enable gain-sharing at the individual city level; and (3) discipline and prudence would be required when considering potential gain-sharing proposals.

The next meeting of the Advisory Committee is scheduled for August 16, 2012. Prior to that meeting, TMRS will be working with the Committee members to narrow down the benefit proposals being considered at the meeting.

TMRS Audit Report Findings: Payroll Reporting and Contribution Payment Processes

The TMRS Internal Auditor conducted this audit in late 2011 and early 2012, with three objectives:

1. To assess the adequacy of controls over the receipt and processing of municipal payrolls and member contributions
2. To determine if municipal payrolls and member contributions were processed in compliance with applicable laws, regulations, and rules
3. To assess the reliability of payroll and contributions information reported to TMRS by a random sample of central Texas municipalities

Findings were positive, but a few areas for improvement were noted that will be reflected in upcoming TMRS initiatives.

Many TMRS cities still report payroll and make payments manually. If your city does not make online payroll reports, please consider using the [TMRS City Portal](#) to report your payroll and using ACH to make the payments (see the [Electronic Payroll Guide](#)). You may also submit payroll reports electronically through our secure FTP. Electronic submissions save time for both TMRS and our cities, resulting in faster retirement and refund processing and fewer errors. Payroll submissions sent to TMRS via U.S. mail are considered late and subject to a penalty unless the submissions are postmarked and deposited with the U.S. Postal Service on or before the 15th of the month following the payroll period being reported. Payroll submissions sent to TMRS electronically and received after the 15th of the month are also considered late and subject to a penalty.

Several provisions of the TMRS statute may not be well understood by some city staff, including those provisions relating to the “1,000-hour Rule” for member participation, the TMRS definition of “compensation,” and the continuation of TMRS contributions during a period when workers’ compensation benefits are being paid. Watch for a special e-bulletin to address these issues soon.

TMRS wishes to thank those TMRS cities that participated in parts of this audit for their cooperation. A copy of the full audit report is available as a PDF by request to communications@tmrs.com or by phone.

GASB Issues New Standards for Pension Accounting

On Monday, June 25, the Governmental Accounting Standards Board (GASB) released its long-anticipated new standards for pension accounting. These standards are complex and are the result of several years of data collection, analysis, study, discussion, and feedback.

Two major changes – the **separation of the accounting from the funding of pension benefits** and the **placement of the net pension liability directly on the employer’s balance sheet** – will affect financial reporting for TMRS cities. These statements will take effect for employers (cities) for years ended June 30, 2015, or later. Over the next year, TMRS will provide more detailed information on these changes through the e-bulletin, the “Eye on GASB” update, and the website.

The new Statements should be available in early August to download free from the GASB website (www.gasb.org) or to purchase in printed form.

TMRS 2011 CAFR Available

The *TMRS 2011 Comprehensive Annual Financial Report (CAFR)* in PDF format (257 pages) is now posted on the TMRS website under the [Publications page](#). The Summary Annual Financial Report, or PAFR, has also been posted. The PAFR will be mailed to all members and annuitants as an insert inside *INSIGHT* and *RetirementWise* in the next couple of weeks.

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