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October TMRS Board Meeting, Mortality Table and Actuarial Cost Method Changes, New Trustee and CIO, Other Reminders for Cities

TMRS Board of Trustees October Meeting Summary

The TMRS Board of Trustees met on October 9, 2013. Among the items on the agenda:

- The Board approved new, generational mortality tables for use in calculating liabilities, contribution rates, and the Annuity Purchase Rate (APR) factors used to determine member monthly retirement amounts. The detailed FAQ available on the TMRS website has been updated, and some highlights of the decision are described below.
- The Board approved the use of the Entry Age Normal actuarial cost method for the actuarial valuation to be performed as of December 31, 2013. A short article on the newly adopted cost method appears below, and TMRS will be providing more information in the weeks ahead. A copy of the GRS presentation on both topics is on the website.
- GRS also presented an overview of the new GASB accounting requirements for pension disclosures. Cities will need to report the new Net Pension Liability for fiscal years beginning after June 15, 2014. The new GASB requirements are complex and will require significant changes to financial reporting. TMRS encourages all member cities to be sure that financial staff and auditors are prepared. We will be updating the "Eye on GASB" feature on the website as more information becomes available.
- Investment consultant RV Kuhns presented a summary of investment performance as of August 31, 2013.

Board Welcomes New Trustee

Attending his first meeting of the Board was David Landis, city manager of Perryton, who was appointed to the Board of Trustees by the Governor for a term ending February 1, 2015. The press release about Mr. Landis is posted here.

New Mortality Tables Approved

A few key points to remember about the mortality tables that will be in effect for retirements beginning January 1, 2015:

- No current retiree's benefit will be affected.
- This change reflects the longer life spans of retirees and reduces the "subsidy" for future retirees that cities are currently paying for the longer lives of existing retirees.

- Once an employee retires, his or her benefit will not be affected by further reductions. TMRS has heard a widely repeated rumor that benefits will continue to be reduced after retirement. This is not true.
- The new mortality tables will be phased in over 13 years to minimize the effect on future retirees. As a result, the closer to retirement an employee is, the less he or she will be affected by the change. For example, a member retiring in 2015 on a 100% joint and survivor option will see a reduction in the monthly annuity amount of approximately 0.5%. An employee retiring in 2016 will see a reduction of approximately 1.0% and so on to the end of the 13 year phase-in period. For a member retiring on a retiree life only option, the reduction is approximately 1.0% per year. In many cases working a few extra months will put the member in the same financial position they were in before the change.
- TMRS systems, including the online benefit calculator, will be updated in early 2014, to incorporate the new mortality tables to allow retirement planning for members.

TMRS will be conducting an extensive information campaign throughout 2014 to ensure that cities and members understand these changes. For the latest information or to ask questions of TMRS or our consulting actuary, city staff may wish to consider attending the November Annual Training Seminar in Austin.

TMRS Board Approves Entry Age Normal Actuarial Cost Method

The TMRS Board also approved a change in the actuarial cost method used to calculate pension liabilities and to determine the annual contribution rates that cities pay to fund their TMRS benefit programs. The method that will be used beginning with the actuarial valuation as of December 31, 2013 (which produces the 2015 contribution rates), will be the Entry Age Normal (EAN) cost method. The method currently being used by TMRS is the Projected Unit Credit (PUC) method.

Some key points about the change in cost method include:

- EAN is the cost method required by the new GASB pension accounting standards (GASB Statement No. 68) for reporting purposes. While it is not necessary to adopt EAN for funding purposes, using the same cost method for both funding and reporting purposes will reduce the disparity between the two sets of calculations.
- EAN provides a more stable level of funding throughout an employee's career and will help keep city rates more stable and predictable for the future.
- Because EAN funds more of the benefit earlier in an employee's career, contributions earn more interest over the career period and the ultimate cost of an employee's benefit is lower to the employer.
- Initially, the change to EAN will result in lower funded ratios for many TMRS cities, but in future years, the funded ratio will improve. In general, assets accumulate faster under EAN than PUC, resulting in a financially healthier retirement system. Most cities will see little or no change in contribution requirements, but a few, mostly smaller and/or younger cities, will experience increased contribution requirements. For any city with an annual

contribution increase that exceeds 0.5%, TMRS will allow the new rate to be phased in at a maximum annual change of 0.5%.

The change in actuarial cost method is a complex matter, and TMRS will be issuing more detailed information soon. We will include communications in our forthcoming publications, at our Annual Training Seminar in November, and at other events between now and the end of 2014.

A review of the two actuarial changes made by the Board was included in TMRS Executive Director David Gavia's presentation at the Texas Municipal League conference last week. Mr. Gavia's presentation covered TMRS' recent history and current status, but also went into detail about the change in mortality tables and actuarial cost method. The presentation is available here.

TMRS Chooses New Chief Investment Officer

The Texas Municipal Retirement System has hired Mr. T. J. Carlson to replace outgoing Chief Investment Officer Nancy Goerdel, who will retire in January 2014. Mr. Carlson has extensive experience in public pension fund investing. A press release with details is available here.

Sign up Now for the Annual Seminar!

Make plans to reserve your room (by October 28) for the TMRS Annual Training Seminar, "Ahead of the Curve," in Austin November 19 – 20 at the Austin Sheraton Hotel. After reserving your room, be sure to send in your registration form to TMRS. In addition to the registration form, an abbreviated agenda is available on the TMRS website. Participants may receive up to 7 CPE credits by attending the Annual Training Seminar. If you have any additional questions, send an e-mail to communications@tmrs.com.

Did You Know? Information on New Member Forms
Affects Your City's Contribution Rate!

When a new member joins TMRS, certain personal information is provided. This information includes date of birth, gender, and monthly salary. This information is fundamentally important because it is part of the actuary's annual valuation process, which determines your city's rate each year. Please be sure that any **New Member Enrollment** form (TMRS-0016) that is transmitted to TMRS is accurate, legible, and complete. Missing or incorrect information can affect your city's contribution rate.

NOTE - Previously issued e-bulletins are posted in the E-Bulletin section under the City Services tab on the TMRS website.

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