EXECUTIVE E-NEWS

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This new e-newsletter is designed for city officials and others who have attended the TMRS Executive Workshops, those who may wish to attend a future workshop, and anyone with an interest in TMRS issues. Please forward this e-newsletter to anyone who might be interested.

Executive Workshops for 2017

—David Gavia, TMRS Executive Director

Last year TMRS introduced a new type of training for cities. Presented as half-day sessions in six Texas cities, the workshops allowed TMRS staff to meet with city officials to provide them a snapshot of TMRS as a plan and explain how TMRS works with their cities. In 2016, Executive Workshops were presented in Austin, Plano, Nacogdoches, McAllen, Amarillo, and Deer Park.

Executive Workshops deliver an overview of TMRS' plan design and provide detailed information about actuarial, investment, and legislative matters. In addition, they facilitate networking among city executives — City Managers, Assistant City Managers, Finance Officers, HR Directors, elected officials, and other city decision-makers.

We hope you will be able to attend one of the workshops planned for 2017. Thank you all for your support of TMRS, and I look forward to working with you in the future.

Locations

For 2017, five planned workshop sessions will consist of presentations and panel discussions. Workshops are free to attend, and breakfast and lunch will be served. Sign up online using Eventbrite (links below).

- April 25 – Austin (TML Headquarters Building, 1821 E. Rutherford Lane, Suite 400)
- May 10 – Arlington (Bob Duncan Center, 2800 S. Center St., Main Room)
- June 13 – Corpus Christi (American Bank Center, 1901 N. Shoreline Blvd., Watergarden B)
- July 25 – San Antonio (Central Library Auditorium, 600 Soledad St.)
- August 22 – Sugar Land (City Hall, 2700 Town Center Blvd. North)

Agenda

- 9:30 - Breakfast
- 10:00 - Welcome and Introductions
- 10:15 - What's New at TMRS?
- 10:45 - Panel on Investments, Plan Design, and Actuarial Funding
- 11:45 - Conclusion, questions

Investment Return – A Key Assumption

—Leslee Hardy, TMRS Director of Actuarial Services

In calculating the funding needs and assessing the current health of a retirement plan, actuaries make assumptions about the future experience of the plan, its membership, and the likely return on *the investments held in trust. The assumption of future investment income, also called the investment return or discount rate assumption, is an important part of the funding picture and has come under considerable scrutiny as pension plans across the U.S. have received lower returns on their investments. This article explains how the investment return assumption is set at TMRS and why it is a cornerstone of any funding arrangement.*

The long-term expected rate of investment return is one of the principal assumptions used in the annual actuarial valuation of TMRS plans. It is used to discount future expected benefit payments to the valuation date in determining plan liabilities and contribution rates. Actuarial Standards of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations, provides guidance to actuaries regarding the selection of economic assumptions for measuring pension obligations in defined benefit plans. ASOP No. 27 calls for an actuary to develop a reasonable economic assumption, which is defined as an assumption that:

- Is appropriate for the purpose of the measurement
- Reflects the actuary's professional judgment
- Takes into account historical and current economic data that is relevant as of the measurement date
- Reflects the actuary's best estimate of future experience
- Has no significant bias (i.e., is neither significantly optimistic nor pessimistic, although some allowance for adverse experience may be appropriate)

Most actuaries, including the System's consulting actuary, Gabriel Roeder Smith (GRS), use the "building block method" to determine the investment return assumption. Under this methodology, the weighted average real rate of return for each major asset class under the target asset allocation is added to the expected inflation rate. Effective with the December 31, 2015 actuarial valuation and based on the target asset allocation adopted by the TMRS Board in July 2015, the current TMRS investment return assumption, net of all investment and administrative expenses, is 6.75% (2.5% inflation + 4.25% real rate of return).

Inflation is measured by annual increases in the Consumer Price Index for Urban Consumers (CPI-U). In determining the current 2.5% inflation assumption, GRS considered recent trends, forecasts from investment consulting firms and the Social Security Administration, the Survey of Professional Forecasters, and expectations implied in the bond market. The inflation assumption is also an underlying component in determining the assumptions for future plan member salary increases and overall payroll growth.

In analyzing the real return component of the investment return assumption, GRS combined the System's target asset allocation with the most recent forward-looking capital market return assumptions developed by eight investment consulting firms with an emphasis on the information provided by TMRS' investment consultant, RVK. Because the time horizon of the investment consultants is generally 5-10 years, and the duration of the plan liabilities is over 20 years, GRS made an adjustment to allow for a difference in the time horizon over which these economic capital market expectations are based. Additionally, they made an adjustment to account for administrative expenses.

In determining their best estimate of the investment return assumption based on the target asset allocation adopted in July 2015, GRS utilized a "middle of the road" approach. Specifically, in recommending the current 6.75% investment return assumption, they focused on the area between (1) the arithmetic mean without an adjustment for time, and (2) the geometric mean with an adjustment for time, each further adjusted to reflect administrative expenses.

The investment return assumption, along with all other assumptions, is examined in an actuarial experience study every four years to test the accuracy of the assumption against actual plan experience. The next TMRS actuarial experience study will be performed in 2019.

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State and Federal Legislative Roundup

—Dan Wattles, TMRS Director of Governmental Relations

The following article provides an overview of bills active in the current session of the Texas Legislature and also a look at some issues that may become active in Washington, D.C. Current legislative information is available on the TMRS website.

The 85th Legislative Session gaveled in on January 10, 2017. Pension issues received a significant amount of attention during the interim period. This has continued into the regular session, largely due to the condition of specific local plans that have been in the headlines.

In the Senate, the State Affairs Committee has primary oversight over TMRS and other pension systems. Senator Joan Huffman (Houston) is the returning chair, and newly elected Senator Brian Hughes (Mineola) is the new vice chair. In the House of Representatives, the Pensions Committee is responsible for oversight over TMRS and all state and local pension systems. The Committee is chaired by Representative Dan Flynn (Van) who returns to that position. Representative Roberto Alonzo (Dallas) is returning as vice chair of the Committee.

STATE PENSION LEGISLATION

Two bills have been filed this session that propose to amend the TMRS Act. There are also a number of other bills have been filed that affect TMRS as well as other retirement systems. The status of these bills will be updated regularly on the Legislative page of the website.

Bills that would Apply to TMRS

House Bill 3056 (Meyer) is a bill designed to provide a limited window for the employees of a fire department in a specifically defined TMRS city with a separate plan under the Texas Local Fire Fighter Retirement to enroll fire fighters who first become employees after the adoption of certain city ordinances and the completion of other required actions. All actions would have to be completed by October 1, 2018.

House Bill 3670 (Lozano) proposes to grant accumulated interest to any TMRS member who has returned to work after an eight-year separation and whose annuity was suspended during his re-employment.

Bills that would Apply to TMRS and other Public Retirement Systems

Senate Bill 1752 (Bettencourt) would authorize a home rule city to hold an election following a petition by 10 percent of its residents that would close an existing defined benefit and establish a defined contribution plan for new employees.

Senate Bill 2009 (Taylor, Van) would require public retirement systems to have supplementary actuarial valuations performed that show the effect of investment returns at several rates other than the systems' actuarially assumed rate of return and to provide the results of those valuations to the State Pension Review Board.

Senate Bill 14 (Van, Taylor) is an omnibus ethics bill that, among other things, proposes to suspend the annuity payments of an elected member of a retirement system who is convicted of a qualifying felony while in office and directly arising from their official duties of that office. Senate Bill 500 (Van, Taylor) is identical to the annuity suspension portion of SB 14. Both bills have passed the Senate. House Bill 1756 (Meyer) also proposes to make employees and annuitants who held elected office ineligible for a full retirement annuity if convicted of certain offenses.

House Bill 632 (Fallon) proposes to limit the amount of service retirement annuities for persons becoming members of retirement systems after September 1, 2017 to the lesser of the highest salary of the U.S. Armed Forces pay grade 0-10 or Level II of the executive pay scale. The lesser of these two amounts is $15,583 per month.

Senate Bill 936 (Huffman) proposes to create a Joint Interim Committee of the Texas Legislature to perform an in-depth study of the state's public retirement systems.

Various bills have also been filed that would affect investments by state funds, including TMRS, by restricting or prohibiting investment in companies that boycott Israel and companies engaged in business with Iran, Sudan, or foreign terrorist organizations.

TMRS Legislative Committee

The TMRS Board of Trustees appointed Board Chair Jim Parrish and Vice Chair Bill Philibert to its Legislative Committee. The Committee will work as needed during the legislative session if bills are filed that affect TMRS.

FEDERAL ISSUES

Mr. Parrish and Mr. Philibert and TMRS staff attended the 2017 National Conference on Public Employee Retiree Systems (NCPERS) annual legislative conference in Washington, D.C. on January 30-31, 2017. Issues discussed include potential federal legislation, such as the "SAFE Act" (Senator Orrin Hatch, R-UT) and the Public Employee Pension Transparency Act, or PEPTA (Rep. Devin Nunes, R-CA), two pension bills that have not been filed but that have been filed in prior sessions as stand-alone bills.

The SAFE Act purports to solve the underfunding of pensions by allowing state and local governments to purchase fixed annuity contracts from insurance companies for each employee every year during their working career.

PEPTA proposes that state and local government pension plans report the funded status of their plans to the Secretary of the Treasury, who would post the information on a searchable website. The Act would also prohibit the federal government from providing any financial assistance or bailouts to public pension plans in the future. If adopted, plans that do not comply with the reporting requirement would be ineligible from issuing bonds exempt from federal taxation.

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