TMRS™
TEXAS MUNICIPAL RETIREMENT SYSTEM

Example letter sent to cities that offer annually repeating benefits, whose rates increased by more than 0.5%, and whose matching ratio is greater than 1:1.

Mr. Burt Texan
Finance Director
City of Anyplace
P.O. Box XX
Anyplace, TX

Dear Burt,

This letter contains information about your city's TMRS contribution rate and some of the changes that will take place in 2008 and 2009.

Your city's rate for 2008 for retirement benefits is **16.11%. The actuarial changes TMRS is implementing will not cause this rate to change in 2008.**

(Note that the rates in this letter do not include the cost of the Supplemental Death Benefit (SDB), if your city has that provision. The 2008 rate you received earlier in January includes the cost of the SDB. Your SDB contribution for 2009 should not vary much from your 2008 rate. Your actual total rate for 2009, including the cost of the SDB, will be provided in May. The rates below are estimates to be used for planning purposes only.)

Most of the changes that are being made by TMRS will have a much greater effect on cities with annually repeating benefits — either Updated Service Credits (USC) or both USC and Annuity Increases — than on those cities that do not have the repeating feature. Your city's plan currently includes annually repeating benefits.

Several factors are causing a change in cities' contribution rates. These factors are explained in detail in Attachment A.

You will receive your final 2009 contribution rate in the Rate Letter package in May, but we wanted to provide an early estimate of what your rate could be in future years. As discussed in Attachment A, this estimated rate will vary somewhat from your final rate because it is based on your city's demographic and other data as of 12/31/06, but it should be reasonably close to the rate you will receive in the spring and should be useful for preliminary planning. The rate you will receive in May will be based on 12/31/07 data and will likely be different from the rate set out in this letter.

Your projected full contribution rate for 2009 is **23.64%.**

Because the actuarial changes made by TMRS have resulted in an increase in your contribution rate greater than 0.5%, your rate will be subject to two provisions that will not affect TMRS cities that experienced smaller increases. (See Attachment A for a full explanation of how the increase is calculated.)

Your plan's unfunded actuarial liabilities will be amortized over a 30-year period (unless you request to remain at a 25-year period). Under a 30-year amortization period, your estimated 2009 retirement contribution rate (full rate) will be **22.47%.**

Your full rate will be phased in over eight years and for 2009 will be approximately 1/8 of the difference resulting from the actuarial changes (phased-in rate). Cities will have eight years to reach the full rate but may contribute additional amounts up to the full rate if they choose to, or may pay the full rate beginning in 2009. To the extent a city submits contributions to TMRS that are less than the full rate, i.e., contributions based on the phase-in rate, the city will need to accrue a net pension obligation in its financial statements. See Attachment B for more information about GASB disclosures.

Your phase-in rate for 2009, under a 30-year amortization period, will be approximately **16.91%.**

Cities that are experiencing significant increases in contribution requirements may wish to consider making adjustments to benefits. The wide variety of possibilities for benefit adjustments are impossible to show in a letter, but the examples below should give you an idea of the associated effects on your contribution rate. Once the valuation is completed, TMRS will assist cities in fine-tuning these estimates as needed. The different rates shown below are for illustrative purposes only. <u>TMRS is not recommending that you make any of these changes. The decision to make benefit changes, if any, should be made only after a careful review by your city and preferably after you have received your final rate in May, following completion of the December 31, 2007 actuarial valuation.</u> See Attachment C for more information.

If your city turns off all annually repeating benefits, your 30-year full rate will be approximately **14.51%.**

Cities may choose to turn off annually repeating benefits and adopt USC and Annuity Increases on an ad hoc basis. If your city chooses to exercise this option, your 30-year full rate (including the cost of one year's USC and Annuity Increase) will be **14.77%.**

Ad hoc increases vary significantly from city to city based on the demographic characteristics of each city. However, for cities with a fairly stable workforce and a sufficient number of participants to make generalizations meaningful, rates may be expected to rise due to ad hoc annuity increases in a range from 0.3% to 0.6% of pay each year they are granted in the first few years.

It is important to understand that turning off annually repeating benefits and adopting those same benefits ad hoc each year does not decrease the ultimate cost of

those benefits. Cities that choose to do this are likely to see their unfunded actuarial accrued liability increase each year. See Attachment A for a discussion of the problems associated with ad hoc increases.

To help you see the effect of changing other elements of your plan, here is your estimated full contribution rate with different levels of benefits (note that for some cities, some of the rates of USC and COLA are higher than your current plan. These are estimates to help you see the cost of these features.)

Your current deposit rate is **7.0%**
Your current matching ratio is **2.0**

The following table shows your full rate with your current deposit rate and matching ratio and varying levels of USC and Annuity Increase:

100% USC / Annuity Increase at 70% of CPI	**22.47%**
75% USC / Annuity Increase at 50% of CPI	**19.83%**
50% USC / Annuity Increase at 30% of CPI	**17.43%**

The following table shows your full rate, but with a matching ratio of 1:1 and varying levels of USC and Annuity Increase:

100% USC / Annuity Increase at 70% of CPI	**18.37%**
75% USC / Annuity Increase at 50% of CPI	**16.32%**
50% USC / Annuity Increase at 30% of CPI	**14.45%**

The Rate Letter you receive in the spring will contain the GASB disclosure letter for your city's plan. Attachment B discusses the letter in more detail and provides suggestions for cities that are preparing their annual financial reports between now and the spring.

Attachment C contains general information on a timetable, some options for cities that are facing significant increases in contribution rates, and legislation that is likely to be proposed in 2009. Some of this information may not apply to your city but is included for your reference.

TMRS will continue to keep you informed about these important changes to our System. In the meantime, please do not hesitate to call us if we can answer questions or provide assistance.

Sincerely,

E Henry

Eric Henry
Executive Director