TMRS E-Bulletin for Cities – Vol. 10
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THIS ISSUE: Board Appointments, Rate Letters, Legislative Stakeholders Group, Key Communications

Governor Perry Appoints Two to TMRS Board

On April 4, Governor Rick Perry appointed Ben Gorzell, Jr. to the TMRS Board of Trustees for a six-year term. As Director of Finance for the City of San Antonio, he will serve as an "Executive Trustee" and replaces Rick Menchaca of Midland on the Board. TMRS thanks Mr. Menchaca for his 13 years of service to the System.

In addition to appointing Mr. Gorzell, the Governor reappointed Carolyn Linér, Director of Human Resources / Civil Service for the City of San Marcos, for another six-year term as an "Employee Trustee." Carolyn currently serves as Board Vice Chair.

TMRS congratulates both Ben and Carolyn for their appointments and thanks them for their service to TMRS. Their terms will expire February 1, 2013.

Rate Letters Coming in May

The rate letters, planned for mailing in the first week in May, will contain your city's contribution rate for 2009. The format for this year's letter will be slightly different from past years but will provide the same information as past years'.

Legislative Stakeholders Meeting

The TMRS Legislative Stakeholders Group held its first meeting in Austin on April 17. The group is comprised of representatives of associations representing management and employees, including fire and police, plus the TMRS Advisory Committee on Retirement Matters. The meeting on April 17 was chaired by April Nixon of the TMRS Board of Trustees.

TMRS Executive Director Eric Henry presented an overview of the three-part TMRS legislative proposal:

- Part 1 – Allow TMRS to credit unrealized gains and losses to cities
- Part 2 – Guarantee members an annual interest rate and annuity purchase rate regardless of investment gains and losses
- Part 3 – Allow employers variable annual interest rates, including negative rates

The PowerPoint Eric Henry presented is available on the TMRS Website.

The Group's members discussed these issues and there was a general understanding of the importance of achieving passage of this proposal and there was broad agreement that this proposal was a good approach. Identified advantages of the proposal included:

- A sound system of secure benefits aids employee recruitment
- Public acceptance of employee benefits will be enhanced
- Benefits will be sustainable over time
- Employer costs will be more predictable over time

Most discussion revolved around the second and third parts of the proposal.

There was discussion of the appropriate level to guarantee members' annual interest rate and the annuity purchase rate and requests among the groups representing fire and police personnel to consider some method of sharing investment gains above the assumed 7% return, based on a belief that investment markets are likely to produce higher returns in future years. Elected officials expressed the need for cities to receive relief from continually rising contribution levels.

In response to a question about the effect of several consecutive years of high or low returns under the proposal and increased diversification into stocks, Eric Henry discussed potential scenarios:

In a high-performing market (investment returns above 7%) with all other actuarial factors remaining constant:

- Funding ratios will gradually improve
- Employer contributions will gradually go down
- Employee benefits will remain level

In a low-performing market (investment returns below 7%) with all other actuarial factors remaining constant:

- Funding ratios will gradually decline
- Employer contributions will gradually increase
- Employee benefits will remain level

By comparison, if the proposal is not enacted:

- Funding ratios will decline in the 12/31/09 actuarial valuation (due to lower assumed investment returns)
- Employer contributions will increase in the 12/31/09 actuarial valuation
- By 2017, interest credits to member accounts and annuity purchase rates will likely fall below 5%

One suggestion was to devise a “trigger” tied to funding levels that would, for example, increase the members’ interest when a city (or TMRS as a whole) achieved a funding ratio of 88%. Another suggestion was to create a type of “gain sharing” in years when total returns on investments exceeded a particular percentage. For example, in years when the fund’s return was greater than 9%, interest above 9% would be shared by members and cities. Requests were made for TMRS to model several scenarios for the next meeting.

A request was made for – at the next meeting – a presentation on the Texas County and District Retirement System (TCDRS), since TCDRS has undergone similar changes to what TMRS is proposing.

Emphasis was placed by all parties on the importance of providing competitive and dependable benefits to employees.

With the common understanding that the core proposal is of utmost importance, other items and concepts that were brought up by group members as potential legislative issues included:

- Guarantee that USC and COLAs remain in place
- A return of extra checks for retirees
- Higher floor for annuity purchase rate once long term investments returns reach a certain level
- Alternate methods to calculate COLAs as a fixed percentage, not retroactive
- Overtime pay excluded from TMRS compensation. Put into 457 plan
- Propose a smoothing technique to give the cities predictable rates
- Two-tiered plans for vesting requirements
- A window to change vesting requirements from 5-year to 10-year

There was also a brief discussion of the return-to-work provision that has been part of past TMRS legislative proposals. Several members of the group voiced reservations about the concept.

There was discussion among members that the addition of other, potentially controversial issues to the TMRS bill could jeopardize enactment of the three core provisions necessary to facilitate a broadly diversified investment portfolio, higher investment returns, lower employer contribution rates, and guaranteed interest credits and annuity purchase rates to members. There was consensus that enactment of these core provisions was in everyone’s interest.

Future meetings are likely to focus on the level of employee interest – 5% or another number, potentially adjusted based on investment performance or improvement of funding ratios.

The goal of the group is to present recommendations to the full TMRS Board in August.

The next meeting of the group will be held in May, at a date yet to be determined.

Questions about the Legislative Stakeholder Group should be directed to the TMRS Governmental Relations Director, Eddie Solis, at esolis@tmrs.com.

Communicating Changes to Employees

The following story will appear in the next issue of *Insight*, mailed to all TMRS members in early May. We wanted to give city correspondents an advance look at the article so you can coordinate your communications with TMRS'.

TMRS Changes —
What's on the Horizon?

Most TMRS members are aware that the System is undergoing changes to ensure that member benefits continue to be soundly funded and to preserve benefit levels for future retirees.

Investments
TMRS is gradually diversifying its investment portfolio from its current fixed income strategy (bonds) to a portfolio that will contain both stocks and bonds, with a target of 12% in indexed stocks by the end of 2008.

TMRS is making investment changes now because the environment that has been so successful for TMRS has changed. For much of its 60-year history, TMRS has invested primarily in fixed income investments (government, high-quality corporate, and agency bonds). This investment strategy provided a predictable annual income stream with minimal risk. But lately, the interest income from bonds has dropped to the lowest level in many years. Therefore, as old bonds mature and new money flows into TMRS, the opportunity for high-interest bond investment has decreased.

TMRS is diversifying its investments, but we are doing it slowly and deliberately. We are starting with a low-cost, lower risk strategy by investing in stocks that track indexes, one each for domestic and international stocks, and are putting in 1/2% of the portfolio value into each index on a monthly basis.

By the end of 2008, we should have approximately 12% of the portfolio invested in stocks. This method of investing, putting a fixed amount into the market on a regular basis, is known as "dollar-cost averaging." It is a lower risk method of getting into a market because it eliminates the risk of putting in too much at the wrong time. Trying to predict the right time, i.e., "timing the market," is not a prudent approach as it has been proven by experts that it is not possible to do that consistently.

Actuarial Changes
There has been increased coverage of TMRS in the press due to the impact of recent actuarial changes on city rates. Some of the stories have been exaggerated, and their use of the term "shortfall" is inaccurate in the context of long-term funding of retirement benefits. The changes taking place in TMRS are NOT caused by inadequate contributions. Despite a rumor that cities have not been putting enough money into TMRS, every TMRS city has contributed the actuarially required amount for its benefit plan.

Some cities may need to contribute more money in the future if they want to maintain the same level of benefits they have offered in the past. The difference between the current and the new actuarial cost method is that all benefits, including annually repeating Updated Service Credits and Annuity Increases, will be advance-funded over each employee's working career, instead of being funded one year at a time as benefits accrue.

System Soundness
TMRS is well-funded and sound. The changes in investment and actuarial policies will not put your retirement at risk. Any benefit you have earned to date will not be affected. If your city ultimately decides to change its plan options, the change(s) will not affect the deposits you have made, the service credit that you have already earned, or the city match for periods of time before the change.

For More Information
The best source of up-to-date information on TMRS changes is the TMRS Website at www.tmrs.com. We encourage you to call or send an e-mail (phonecenter@tmrs.com) if you have further questions. ■

Please call TMRS or send e-mail to communications@tmrs.com if we can help you or provide further information.

NOTE - Previously issued e-bulletins and correspondence are posted in the "Breaking News for Cities" section on the TMRS Website.