THIS ISSUE: Main Street, 2008 Annual Seminar, Legislative Stakeholder Meeting

Main Street Newsletter

For most of 2008, these e-bulletins have been and will continue to be our primary communication to cities. We plan to release only one issue of Main Street, the newsletter for city officials, instead of two this year. That issue will be mailed this fall and contain information on the Board’s actions at their September meeting and on proposed amendments to the TMRS law that will be presented to the Texas Legislature in January, 2009.

2008 Annual Training Seminar in Corpus Christi

The Omni Corpus Christi Bayfront and Marina Hotel is the site for this year’s Annual Training Seminar. This year’s seminar focuses on benefits administration, but will also include some sessions on investment and funding issues. There will be another seminar concentrating on finance and funding in spring 2009.

We will post registration forms on the Website soon – look for them before the end of June. As always, $125 covers your seminar registration and meals. Your city will also need to book room(s) as needed at the Omni; TMRS will reserve a block of rooms for the conference at government rates.

ABBREVIATED AGENDA

September 2 - Early check-in
6:00 - 7:00 pm — Evening Reception
September 3 - Full day session:
7:30 am - 9:00 am — Check-in and breakfast
9:00 am - 9:10 am — Welcome
9:10 am - 3:20 pm — Program
Evening Entertainment – Dinner at the Texas State Aquarium
September 4
Program — half-day, ending at 12:00 noon

TMRS Legislative Stakeholder Group Meeting, May 28, 2008, Austin, Texas

Highlights of the second meeting of the TMRS Stakeholder group include:
- Presentation and discussion of TCDRS funding design for comparative purposes
- Follow-up on two proposals made at the April meeting for allocating investment returns
- Other discussion
TCDRS FUNDING DESIGN

The Texas County and District Retirement System’s (TCDRS) Executive Director, Investment Officer, and other staff members made a presentation on TCDRS, in response to a request made at the group’s first meeting in April. Concepts similar to TCDRS’ existing plan design are being proposed by TMRS in its core legislative package.

At TCDRS:

- Members receive a statutory interest rate of 7%.
- Employer interest rates vary, based on investment returns, and can be negative.
- The targeted interest rate each year for employers is 9%.
- Assumed annual investment returns are 8% with a well diversified portfolio.
- The TCDRS menu of benefits does not include Updated Service Credit or annually repeating COLAs, although ad hoc COLAs can be granted
- A reserve fund is primarily used to help stabilize employer contribution rates in years when investment performance doesn’t meet expectations, but even a couple of “bad” years could exhaust the reserve.
- A 10-year actuarial smoothing of the employers’ assets decreases volatility in employer contribution rates, by recognizing actuarial asset gains and losses over a 10-year period.

TCDRS officials emphasized that the main focus of their plan design is to help keep employer rates stable while providing the guaranteed 7% credit to members. They also made the point that the benefit design differences between TMRS and TCDRS are significant — an example being that only about 8% of TCDRS employers have provided regular (at least three years in a row) ad hoc COLAs in recent years.

TWO TMRS PROPOSALS

TMRS staff followed TCDRS and provided information on two proposals that had been made at the April meeting. The TMRS PowerPoint presentation is available on the TMRS Website.

Because both proposals would create additional liabilities for cities, and because many TMRS cities are already facing high contribution rate increases to fund annually repeating benefits, both proposals would be optional by city, adoptable by ordinance, and possibly conditioned on a particular funding level.

Under one proposal, an individual city would grant 6% interest to members rather than 5% by expressly assuming the liability associated with the increase. For cities that choose the option, city accounts would receive less interest so that an additional percentage point could be allocated to member accounts. Only the city that adopted the provision and its employees would be affected by the benefit election. The effect on the contribution rates of cities adopting the benefit would vary widely, based on demographics, plan design, and existing liabilities, but cities electing this option would generally see higher contribution rates.
Under the second proposal, in any year that investment returns (using 5 or 10-year average total returns) exceeded 9%, interest above 9% would be shared by members and cities. TMRS noted that such a proposal would slow a city’s amortization of liabilities by reducing the gain in “good years.” Projections under this “gain sharing” scenario are extremely difficult to make.

COLAS AND SMOOTHING

One idea that seems to have the support of some members of the group is the addition of new COLA options for TMRS cities — including flat rate COLAs that could be granted ad hoc.

Currently, TMRS COLAs are calculated over the entire period a person has been retired, based on a percentage of the change in CPI over that time period. One effect of this structure is that, if a city continues to grant annually repeating COLAs but reduces the percentage of CPI in its COLA formula, retirees who have been receiving COLAs may not see one for several years.

There was also considerable discussion of the appropriate level of smoothing of the System’s investment returns. Five-year smoothing is common, but 10-year would reduce annual swings and might help keep city contribution rates more stable.

WHAT’S NEXT?

The next meeting of the Legislative Stakeholder group has not yet been determined, but we are aiming for an early or mid-July meeting. The goal of that meeting will be to determine what proposals will be carried forward, hopefully with a consensus of the entire group.

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.