

TMRS E-Bulletin for Cities – Vol. 3
September 14, 2007

NOTE TO RECIPIENTS - We will be sending an E-Bulletin once or twice each month to all city contacts for whom we have e-mail addresses. This issue is intended primarily for CFOs, controllers, and city managers. Please forward a copy of this e-mail to your city manager and/or finance officer if they are not currently TMRS contacts. (Previously issued e-bulletins and correspondence are posted in the [“Breaking News for Cities”](#) section on the TMRS Website.)

THIS ISSUE: TMRS Board of Trustees Meeting

The TMRS Board of Trustees met on September 7-8 in Austin.

Interest Rate and Extra Payment

The interest rate for member and city accounts has been set at the statutory rate of 5% for 2007. Interest will be credited on December 31, 2007, based on the account balance as of January 1, 2007. Members will be able to see the interest amount on MyTMRS in early January.

There will be no Extra Payment to retirees in 2007. The Extra Payment is not a guaranteed benefit and the payment amount has declined in recent years as interest earnings have been lower. In the current low inflation environment, both interest rates and Extra Payments have been lower.

Investment Consultant

The Board approved the selection of R.V. Kuhns and Associates as the investment consultant to TMRS. The firm provides strategic investment consulting services to institutional investors and will assist the Board in its examination of TMRS' current investment policies and practices. TMRS is considering making changes to increase the System's investment earnings while maintaining an appropriately low level of risk.

Actuarial Experience Study

The Board heard a report from the System's actuary on the Actuarial Experience Study. Every four to five years, the actuary examines economic and demographic assumptions that are used to fund the plan to determine whether or not they need to be adjusted to match actual experience. The study's findings are used to adjust assumptions in the following year's actuarial valuation.

The actuary is recommending several changes:

- Change the Actuarial Cost Method to Projected Unit Credit (PUC).
- Change the amortization period from 25-year open to 25-year closed.
- Reduce the inflation assumption from 3.5% to 3%.
- Investment rate of return assumption:
 - 5.5% if investments remain in fixed income only
 - 7% under a fixed income / equity mix

Under a 5.5% interest assumption, employer contribution rates can be expected to rise, but the TMRS Board is considering a change in investment policy that should support the 7% assumption and relieve some of the upward pressure on employer contribution rates.

- Change the salary scale assumption to more closely track salary history over career.
- Change the Payroll Growth assumption from a range of 3%, 4%, or 5% to a 3% rate for all cities.
- Slightly adjust withdrawal and turnover rate assumptions.

The Study also examined mortality rates and recommended updating the mortality tables. It is important to note that these are the mortality tables for calculating liabilities and are not the ones used to set annuity rates.

In the past, there has been some concern among TMRS members that a change in the annuity mortality tables might mean lower benefits for persons who retire after the date of the change. Please note that, if TMRS changes the mortality tables used to calculate annuities, that change will be phased in over time.

Second Actuarial Opinion

The actuarial firm hired to review the recommendations of TMRS' actuary reported results of its review to the Board. The reviewing actuary made the following findings:

- Agreed with the recommendations to move to a Projected Unit Credit actuarial cost method
- Recommended PUC for all cities, not just those with annually repeating benefits
- Recommended increasing the funding of ad hoc benefit increases
- Recommended a five-year phase-in of contribution changes

Other Board Action

The Board took its first look at the rule that will permit cities to make additional contributions to their TMRS account beginning January 1, 2008. More information on that rule will be included in a future E-Bulletin. The Board also considered language for a rule that will adjust how the average updated service compensation is calculated for Updated Service Credit to reduce the likelihood of salary "spiking" in the calculation.

What's Next?

E-Bulletins will be sent whenever we have information to report.

TMRS will be preparing an issue of the *Insight* newsletter for members and the *Main Street* newsletter for cities in the next few weeks.

The TMRS Annual Training Seminar, Focus on Funding, will be held October 14-16 in Austin. [Information](#) is available on the Website.

The TMRS Board will meet in Austin, in mid-October. Watch the TMRS Website for the date, time, and agenda.

In mid-October, TMRS will send each city a letter showing its projected contribution rate under the proposed new actuarial method and amortization policy and under the new actuarial assumptions that are adopted as a result of the experience study discussed above. **Remember that the rate shown in the October letter will not affect your contributions in 2008, and that changes that increase city rates will be phased in over a period of years.**

The TMRS Board meets December 7-8 in Austin. Watch the TMRS Website for the date, time, and agenda.

TMRS is committed to continuing to provide a reasonable retirement benefit at a reasonable cost to cities.

FEEDBACK

If you have questions or comments, please reply directly to this e-mail. If you received this e-mail through a forward from your City Correspondent and you wish to receive the "TMRS E-Bulletin for Cities" regularly, send an e-mail to bulletin@tmrs.com.