TMRS E-Bulletin for Cities – Vol. 5
December 10, 2007

THIS ISSUE: Actions Taken by the TMRS Board

The TMRS Board of Trustees met December 7 and 8 in Austin. They took the following actions, which are discussed in detail below:

- Actuarial changes:
  - Adopted the Projected Unit Credit actuarial cost method for all TMRS city plans
  - Adopted a closed amortization period of 30 years, although some employers may remain at 25 years if they do not experience increases in their contribution rates.
  - Adopted the results of the actuarial experience study, including a 7% investment income assumption
  - Set an eight-year implementation schedule for the phase-in of full contribution rates
- Named Northern Trust Global Investments (NTGI) as the System's passive equities manager to assist in the diversification of assets in 2008
- Adopted a rule and approved forms for the implementation of the HELPS program for retired public safety officers
- Adopted a rule that adjusts Updated Service Credit calculations
- Discussed legislative strategies for the 2009 Regular Session
- Heard a report from Dr. Ray Perryman on the impact of TMRS benefit payments on state and local economies

Actuarial Changes

Effect on City Contribution Rates

The actions taken by the Board closely track the assumptions included in **Exhibit 1** of the letter that was sent to all cities in November, with the exception that Exhibit 1 was based on a 25-year, closed amortization period rather than a 30-year, closed period. What this means is that your contribution rate for 2009 will be similar to the rate shown in Exhibit 1, though the actual contribution rate will be slightly different due to the inclusion of data from the actuarial valuation that will be performed as of 12/31/07, an eight-year phase-in period, and, in most cases, a 30 year amortization period.

You will receive your 2009 contribution rate letter in May 2008. This year's letter will include considerably more information than previous years' rate letters to help cities analyze plan costs and options for the future.

As shown in the November letters, the new actuarial cost method will cause significant increases in contribution rates for most cities that have annually repeating Annuity

Increases (COLAs) as part of their TMRS plan. TMRS has pledged to work with cities to find ways to mitigate the effects of these changes.

Eight-year Phase-in

The TMRS Board adopted an eight-year phase-in period for the new rates in response to concerns from some cities that a five year phase-in period was too aggressive. It is important to note that the full liability associated with the changes will be reflected in the December 31, 2007 actuarial valuation that will set rates for the year beginning January 1, 2009, which will produce lower funding ratios for many cities. For cities that see a large increase in annual rates, this phase-in period will enable the city to slowly increase contributions. The required contribution rate will be adjusted approximately 1/8 per year between 2009 and 2016, when the full contribution rate will be paid.

In the Rate Letter we send in May, each city's ultimate rate will be shown as well as the phased-in, required rate. Cities that are not seeing a large increase (less than 0.50% of payroll) will only see a single rate. Cities that receive the "phased" rates will have the option of making the transition faster if they choose to.

Amortization Period Options

As outlined in Section 855.407, Government Code, any city that sees an increase of more than half a percentage point in its contribution rate as a result of actuarial changes may request a longer amortization period after adoption of a resolution by its governing body. A longer amortization period will result in a slightly lower contribution rate. Although the law allows a city to request a longer amortization period under certain circumstances, we believe that 30 years represents the best option for most cities, providing some reduction in annual rates without adding excessive liability or risk. Thirty years is the GASB standard. TMRS will work with cities to show them the effect of different amortization periods.

Voluntary Contributions by Cities

Beginning January 1, 2008, cities have the options of making additional, voluntary contributions to their TMRS plan. We have already heard from a number of cities that wish to do this in the new year. Cities that wish to exercise this option should call Eric Davis, TMRS' Deputy Executive Director, for instructions on how to make those contributions.

Investment Actions

The Board approved the hiring of its first investment manager, Northern Trust Global Investments (NTGI), as the next step in the diversification of assets that will begin in 2008. NTGI will act as a passive manager, ensuring that TMRS investments in domestic stocks mirror the Russell 3000 index and that foreign stocks mirror the MSCI-EAFE index. TMRS' target for equity investments is 12% by the end of 2008.

HELPS

The Board took final action needed to implement the HELPS program for retired public safety officers. This provision allows retired or permanently disabled public safety employees to elect an amount to be deducted from their TMRS benefit payment on a pre-tax basis to pay for health care or long-term care insurance premiums. The amount a retired officer excludes from taxable income on his or her tax return may not exceed $3,000 in one year.

Watch for another e-bulletin in a few days with full details on HELPS and links to TMRS forms for members and cities.

Economic Impact Study

TMRS benefit payments have an enormous positive effect on local economies in Texas. The vast majority of TMRS retirees live near the city they retired from. The dollars that members and cities contribute to the plan — and the interest they earn over a career — play an important role in cash flow and job creation across the state. Noted Texas economist Ray Perryman has conducted a study of the impact of TMRS benefit payments on commerce and employment across Texas. We will be posting that study to the Website soon and discussing it in the months to come. We believe cities will find the information useful and informative in discussing the value of the TMRS program.

Updated Service Credit

The Texas Constitution requires that pension benefits from a public retirement system be reasonably related to a member’s tenure and contributions. The TMRS Updated Service Credit (USC) provision uses a complex formula that takes into account salary increases over a member’s career. Large lump-sum payments can distort the formula and may inflate a member’s final benefit. The rule adopted by the Board at the December meeting adjusts the USC calculation to reduce the distortion caused by large lump-sum payments, such as a member might receive for sick leave or accrued, unused vacation. The USC calculation uses a 36-month average salary and, under the new rule, the highest and lowest months of that 36-month period will be excluded. The effect of this will be to ensure that USC more accurately reflects actual salary. Existing retirements will not be affected and previous USC calculations will not change, but future USC calculations will be performed according to this rule.

Rumors

With all the changes TMRS is undergoing, it’s not surprising that some of our members are hearing things that are simply not true. TMRS is not “going broke,” and no retiree benefits are in danger. If your employees are concerned about TMRS, please point them to the News page on the Website or have them call us.

As always, the TMRS Phone Center and the Travel Team are here to help.

What's Next?

The TMRS staff actuary position will be filled very soon.

In January, we intend to send you another letter showing your city's projected rate under several plan design scenarios.

Our actuary has promised to help us develop tools to assist cities with benefit design options in January, and these tools will be available to help the Travel Team assist you beginning in February.

Also beginning in February, we will be scheduling Regional Funding Workshops around the state to be held throughout the year. We have already heard from a number of cities wishing to host a Funding Workshop.

Rate letters will be sent to all cities showing the 2009 rate and — for those cities with large increases — the ultimate contribution rate and the schedule of increases through 2016.

As always, please stay tuned to the TMRS Website and these e-bulletins for the latest news from TMRS, and thank you all for your patience and support during these changing times.

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