Advisory Committee on Benefit Design
Meeting Agenda
TMRS Headquarters, April 26, 2018
Conference and Training Room (Sun Room) 5th Floor
8:30 a.m. – 2 p.m.

Thursday, April 26, 2018

1. Welcome and Introductions

2. Consider and Act on Adoption of Minutes from the August 18, 2016 Meeting of the Advisory Committee on Benefit Design

3. Agenda Review and Schedule for Interim

4. Committee Purpose

5. TMRS Overview

6. Legislative Review

7. Legislative Issues & Outlook

8. Advisory Committee Viewpoints

9. Session Recap

10. Discussion of Agenda for Next Committee Meeting

11. Public Comment

12. Adjourn

Meeting of the TMRS Advisory Committee on Benefit Design

April 26, 2018

TMRS Advisory Committee

Welcome!

Introductions

MINUTES OF THE ADVISORY COMMITTEE ON BENEFIT DESIGN OF THE BOARD OF TRUSTEES OF THE TEXAS MUNICIPAL RETIREMENT SYSTEM

On August 18, 2016, the Advisory Committee on Benefit Design (the Committee) of the Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:35 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas. The following members were present:

Advisory Committee Members

Bill Philibert, TMRS Trustee and Committee Chair
Roy Rodriguez, TMRS Trustee and Committee Vice-Chair
Alex Cramer, Arlington Professional Fire Fighters (APPF)
Keith Dagen, Government Finance Officers Association of Texas (GFOAT)
Michael Dane, Assistant City Manager, City of San Angelo
Bryan Langley, Assistant City Manager, CFO, City of Denton
Heidi Manti, Service Employees International Union (SEIU, Alternate)
Julie Masters, Mayor, City of Dickinson
Tadd Phillips, Texas Municipal Human Resources Association (TMHRA)
David Riggs, Texas State Association of Fire Fighters (TSAFF, Alternate)
J.J. Rocha, Texas Municipal League (TML)
David Russell, Texas Municipal Police Association (TMPA)
Greg Shipley, Combined Law Enforcement Associations of Texas (CLEAT)
Lori Steward, City of San Antonio
Greg Vick, Texas City Management Association (TCMA)
Charles Windwehen, Retiree

The following staff, consultants and guests were also present:

David Landis, TMRS Trustee
David Gavia, TMRS Executive Director
Eric Davis, TMRS Deputy Executive Director
Christine Sweeney, TMRS General Counsel
T.J. Carlson, TMRS Chief Investment Officer
Leslee Hardy, TMRS Director of Actuarial Services
Dan Wattles, TMRS Director of Governmental Relations
Debbie Munoz, TMRS Director of Member Services
Bill Wallace, TMRS Director of Communications
Rhonda Covarrubias, TMRS Director of Finance
Sandra Vice, TMRS Director of Internal Audit
Michelle Mellon-Werch, TMRS Assistant General Counsel
Ariel Chou, TMRS Actuarial Analyst
Tish Root, TMRS Legal Assistant
Stacy White, TMRS Executive Assistant
Amy McDuffee, Aon Hewitt
Mark Randall, Gabriel, Roeder, Smith & Company (GRS)

Joe Newton, Gabriel, Roeder, Smith & Company (GRS)
Mike Finley, City of Arlington
George Kauffman, City of Garland
Bonita Hall, Texas Municipal Human Resources Association (TMHRA, Alternate)

Mr. Philibert called the meeting to order at 8:35 a.m.

1. **Welcome and Introduction** – Mr. Philibert welcomed the attendees and Ms. McDuffee had those at the table introduce themselves. Guests in the audience were recognized, including David Landis, TMRS Trustee.

2. **Consideration and Approval of June Advisory Committee Meeting Minutes**
Julie Masters made a motion that the Advisory Committee adopt the minutes from the June 23, 2016 Meeting of the Advisory Committee on Benefit Design. Bryan Langley and David Riggs seconded the motion; which passed unanimously.

3. **Review of Agenda and Desired Outcomes**
Mr. Philibert turned the meeting over to Ms. McDuffee. She reviewed the agenda for this meeting and outlined the expected outcome of the discussion: a list of advantages and disadvantages, communication of that list to the Board, and communication regarding the issues back to the constituencies represented by the Committee members. She next reviewed the progress to date and laid the ground rules for optimal progress during this meeting.

4. **Quick Recap of Study Topics**
The Chair delineated the Board's reasoning for assigning these two topics to the Committee.

   a. Return to Work – Joe Newton reviewed the current return to work (RTW) provisions included in the TMRS Act. He reviewed the IRS requirement that there be a bone fide separation from service. While the IRS has not specified specific time frames, it appears that the IRS would find a bona-fide separation period to be at least one year. With a one-year separation, there would likely be no real effect on contribution rates. If the separation period is shorter, there could be increased costs. If changes are enacted that increased retirement behavior by 20%, the average city contribution rate increase would be by 0.03% to 0.13%.

      Mr. Newton next discussed who could be affected by any proposed changes: 1) future retirees only; 2) current retirees who have not returned to work, or 3) retirees who have returned to work but not yet retired again. For the options that include only future retirees, Mr. Newton stated that there is low to no cost for cities, with a small loss of future gain. If current retirees are included who have not yet returned to work, the impact would also be very low to no cost with a loss of future gain (from suspension of annuities). The broader the net is cast, the greater the potential cost increase. Mr. Newton discussed considerations that should apply to all scenarios. Mr. Newton stated that GRS recommends no change in treatment for

new accruals, meaning that a new account is created when a member returns to work.

Mr. Newton next discussed the proposed RTW options in lieu of the current provisions:

Option 1: Treat RTW retirees at the last employing city, after a one year break in service, like a member who returns to work for a different city. This option would not suspend the annuity. This is the least complicated administratively, and gives all employers an equal hiring position after a separation period of one year.

Option 2: Decrease the 8-year requirement to one year. In this scenario, the annuity is suspended, but accumulated suspended payments are paid to the retiree at subsequent retirement. There are several possible variants to Option 2 including alternative approaches regarding the accumulated payments suspended during re-employment. Mr. Newton worked through examples of how the various options would work with regard to payment to the retirees.

b. Mr. Newton next reviewed the current COLA options in the TMRS Act, how they are calculated and the funding method. He emphasized the retroactive nature of the current COLA feature. He presented a comparative analysis of an Ad Hoc COLA at 70% of CPI, both with and without the retroactive feature. He next presented the same analysis for a COLA granted on an annually repeating basis. Through discussion, Mr. Riggs suggested, instead of a flat rate COLA option, just offer 100% of CPI as an additional option. Mr. Newton answered questions from the committee on the costs and features of the options presented. Mr. Newton mentioned that in order for a plan to avoid any IRS 415 issues, the accrued benefit must stay below current inflation rates. Mr. Newton then presented one final example of a city that had never adopted a COLA. The main point of the discussion was to demonstrate that the retroactive feature makes the COLA more expensive.

5. <u>Discussion of Member Requests from June Meeting</u>

Mr. Wattles began the presentation by providing information requested by the Committee members on various COLA provisions offered by the other statewide systems in Texas. He explained how COLAs work under the Teacher Retirement System (TRS) and the Employees Retirement System (ERS), but noted that due to political and funding issues, TRS and ERS have no regularly occurring COLAs. TRS and ERS have statutory limitations, which require their plans to have an amortization period of less than 31 years before benefit improvements, including COLAs, can be considered. Under the current status of both plans, a COLA would require legislative funding and approval. . With regard to TCDRS, their plan has two types of COLAs, a CPI-based COLA and a fixed rate COLA, both of which are adopted on an ad hoc basis by the individual employers in the system. TCDRS has reported decreased usage of the COLA option in recent years.

In response to a question from the Committee as to whether other plans nationwide have a retroactive COLA feature, Mr. Wattles contacted Keith Brainard, National Association of State Retirement Administrators (NASRA), who confirmed that they are unaware of other systems having a retroactive feature. Alex Brown who also works for NASRA confirmed Mr. Brainard's assertion.

In response to another Committee question, Mr. Wattles stated that 310 of the 850 cities within TMRS have never adopted a COLA. The committee discussed the number of retirees/members this represents. Eric Davis stated that 20%-30% of annuitants are not covered by a COLA. Mr. Wattles stated that in 2016, 45,000 annuitants were covered by a COLA.

Mr. Wattles next discussed the RTW follow-up requests. He stated that Leslee Hardy conducted phone surveys of cities where retirees had returned to work. The responses were presented in the Committee's materials. In response to a question from Mr. Vick regarding age at retirement, Ms. Hardy responded that in those cities surveyed, the average age at retirement was mid-50s, and added that the reasons for retirement may be more personally related.

Mr. Cramer asked what the impetus was for the RTW review. David Gavia stated that there have been return to work bills filed in the past legislative sessions and the one that did change the TMRS plan in 2011 established the 8 year break in service exception. The Board wanted to be more informed and gauge the interest in changes to the provisions from stakeholders in preparation for the next legislative session. Mr. Rodriguez also outlined why the Board wanted to drive the discussion rather than simply react when a bill is filed from another source. He understands the Committee's concerns, but he would rather be proactive and not just reactive on the issues so that when an issue is raised, there has been thoughtful review and the Board can respond. Bryan Langley stated that the 8 year RTW gap is odd and seems arbitrary and said he would like a more equitable solution.

Mr. Riggs brought the discussion back to COLAs, stating that he was shocked no other systems across the country had a retroactive COLA. Joe Newton explained that there are not many agent plans, so you want to have options available to the individual employers while maintaining the stability and security of the system.

Mr. Philibert called for a 15-minute break at 10:08 a.m.
Charles Windwehen spoke on behalf of retirees stating it would be a great help to communities to be able to hire well qualified retirees. He added that the 20-25 year retirement options were based on high stress positions, such as police and fire, but many of these individuals have skills that can continue to benefit the cities they work for.

6. **Presentation and Refinement of a List of Advantages and Disadvantages for Each Return to Work Option Based Upon Advisory Committee Survey Results**
Ms. McDuffee began by reviewing the summarized advantages and disadvantages.

The discussion began with RTW – Option 1, which includes a 1-year break in service, and does not suspend the benefit, but treats an employee the same as if he/she were returning to work at a city other than the last-employing city. The retiree continues to receive his/her benefit payments and his/her salary while employed. She asked for any feedback on the list and observations or questions.

Mr. Vick asked if this option would have a cost impact. Mr. Newton stated that the economic effect of return to work is minimal, although many may still see this as "double dipping". Mr. Vick asked for clarification on item "P" regarding the COLA and clarification on the "double dipping" items, "R" and "S". The committee discussed the perception of double dipping and the factual nature of benefits. The committee discussed the need to be prepared for that characterization of a change for this benefit. The issue of local control was discussed with regard to other policy issues such as transportation, education, and tax caps. Mr. Langley suggested that TMRS may be able to include this in a cleanup bill as a modernization of the System. Mr. Dane said that if there is such consensus on this feature, how TMRS can best move forward to consider implementing a proposal.

Ms. Steward asked if "H" and "O" should be on the list, in that they focus on the individual rather than the System. Mr. Riggs agreed with Ms. Steward that it may be best to reword these to be more neutral to present a more united theme, not just bits from various surveys. She noted her agreement with "C".

Mr. Rodriguez asked for rewording on item "B" to clarify the unfairness issue.

Ms. Masters asked how TMRS benefits work with respect to the increasing longevity of employees. Mr. Gavia explained the changes to mortality tables take into account longer lives of retirees and beneficiaries.

Mr. Wattles added another disadvantage as "bigger risk of changing retirement patterns"

The discussion then turned to the Return to Work – Option 2, after a 1-year break in service, the retiree could return to work at the last-employing city, have his/her annuity suspended but have his/her annuity, including any COLAs granted during the period of suspension, held and paid as a lump sum payment, with or without interest, or re-annuitized upon his/her re-retirement.

Mr. Phillips stated that "D" doesn't make sense to him; why is it listed as a disadvantage of the current System? He also suggested changing the wording in "F" from "Removes" to "Reduces". Mr. Rodriguez suggested removing "F" as it is not an issue for the System and is an earned benefit. Mr. Phillips stated that there is nothing in the disadvantages column that this is a loss of an earned benefit. Mr. Dagen stated that Option 2, "K" is less retiree-friendly, and has less of a possibility to affect retirement trends.

There were other additional concerns regarding Return to Work which include: Should the retiree being made whole refer to whether interest should be paid? The sentiment was "yes" regarding the suspended payments, but not on the interest portion. Mr. Dane stated that retirees forfeit annuity payments when their annuity is suspended. Mr. Dagen and Mr. Langley agreed with Mr. Dane. Mr. Dane stated he is open to a prospective approach, but not for those who are already suspended and have accepted that status, but would be in favor of a prospective approach to un-suspend current working retirees whose annuities are suspended, if there is a way to do it equitably. There was no real Committee disagreement on this part of the discussion.

7. **Presentation and Refinement of a List of Advantages and Disadvantages for Each COLA Option Based upon Advisory Committee Survey Results**

Option 1 – Allows cities to adopt a COLA (either ad hoc or repeating) at 30%, 50%, or 70% of CPI-based only on the change in the CPI in the most recent year. In other words, allow a city to adopt a COLA that does not include the catch-up feature.

The committee reviewed the list of advantages and disadvantages. Mr. Newton stated that "H" is not true. The committee discussed how this option will work and clarified H to say: "For cities already with a repeating COLA there will be no change." Mr. Cramer stated that he would like to add a disadvantage that it could be easier to opt in or out: "B" and "I" both address this. The committee then discussed that while there is no change actuarially, the cities will have more options but the benefit will be less secure. Mr. Vick stated that the majority of cities have been using repeating COLAs for a long time. Is there a motivation for cities that have been paying repeating COLAs to drop to ad hoc? Mr. Newton stated that he doesn't believe there is an incentive to drop to ad hoc if one has been given on a regular basis. It has been harder for cities to drop down from 70% repeating COLAs to 50% because some retirees won't see a COLA for years. Mr. Vick agreed this is a good option for a city as an interim measure when times get tough and they want to decrease COLAs but still give something to retirees.

Mr. Dane shared his concerns with security for retiree benefits in the future. He does not want future councils to be able to reduce benefits for retirees more easily. The committee discussed the difficulties with creating a guaranteed COLA. Mr. Rodriguez clarified that a city council can never decrease a retiree's annuity; it can only limit the amount it increases.

Option 2 – Allow cities to adopt a COLA (either ad hoc or repeating) at a flat rate based on a percentage of the retiree's annuity. In other words, a COLA not tied to the CPI change, 5% for example, subject to IRS limitations. By definition, a flat rate COLA does not have a catch-up feature.

The Committee discussed this provision and the limits on this fixed rate COLA. For example TCDRS has some limitations. Ms. Sweeney mentioned that the way TCDRS is limited is likely based on IRS limitations. She would like to see an adjustment to the description to clarify the limitations. Mr. Langley prefers the variables that are tied to CPI; they are clearer and limit options. Mr. Gavia explained that for any COLA adoption, the percentage is selected by a city based on available options. TMRS could do calculations to ensure that this does exceed the percentage allowed by the IRS. There was a discussion over how the flat rate COLA would work and be limited. The limit would be set at the rate of a 70% CPI retroactive COLA. Mr. Riggs stated that

flat rate colas would be extremely difficult to explain at the legislature. He is extremely opposed to trying to create a new flat rate COLA through legislative action. Mr. Dane feels that the terminology is not a flat rate; he feels that this could be termed a flexible capped percentage COLA. Mr. Windwehen feels that "H" has "unintended consequences" and is too vague. He would like more clarification on this disadvantage. Mr. Phillips would like to add disadvantage that Option 2 is addressing a feature that isn't broken. There are plenty of options and the issue people have is with the retroactivity, not the options available. Ms. Steward would like to have more flexibility.

Mr. Dagan requested to change the wording in "G" from "salary" adjustment to "annuity" adjustment. Mr. Vick has faith that the Board will understand the issues, and that these aren't too negative. Mr. Cramer asked about a window for those that are not currently offering repeating COLAs so that they could get relief from the retroactive provision. Mr. Wattles responded that administratively this is difficult. David Gavia explained for the Committee that in the past we had discussed having a window where we would have one of these options solely for a window period. Mr. Cramer would like to see some way to encourage cities to move toward recurring retroactive COLAs. Mr. Langley stated that there is nothing that currently prevents a council from removing a COLA or decreasing the level of a COLA. He doesn't see any reason to change the current options.

8. <u>Review of Session and Next Steps</u>

Ms. McDuffee stated that she will revise the lists of advantages and disadvantages with TMRS staff. The summary of this meeting, along with input of Committee members, will be provided to the Board at the September Board meeting. Mr. Vick said that he sees there is a difficult political climate for pension systems both statewide and locally, and anything that goes forward will need to be very conservative when it comes to behavior and contribution rates. Mr. Dane is not in agreement with the term "negative retirement behavior;" everyone has a right to retire when they reach eligibility. Overall, the Committee agreed to support only those options that do not cause an increase in contribution rates or negatively affect retirement behavior.

Ms. McDuffee and Mr. Philibert thanked everyone for their input and expressed their appreciation for all of the perspectives and knowledge that each member brings to the meeting. Mr. Rodriguez stated that he is very impressed with the level of knowledge and understanding of all of the Committee members on these issues. He stated that TMRS needs their voices across the State and in their communities and constituencies to help people understand TMRS. We hope each community understands that they have the options to elect how they want a plan that benefits them. He also stated that if the Board decides not to introduce a bill, it is likely another entity will and this forum has given the Board a better understanding and insight. Mr. Gavia also thanked the Committee for their participation and time.

9. <u>Public Comment</u>

There was no public comment.

10. <u>Adjourn</u>

Mr. Philibert adjourned the meeting at 12:05 p.m.

Today's Agenda

1. Welcome and Introductions
2. Consider and Act on Adoption of Minutes from the August 18, 2016 meeting of the Advisory Committee on Benefit Design
3. Agenda Review and Schedule for Interim
4. Committee Purpose
5. TMRS Overview *(Break follows)*
6. Legislative Review
7. Legislative Issues & Outlook *(Lunch follows)*
8. Advisory Committee Viewpoints
9. Session Recap
10. Discussion of Agenda for Next Committee Meeting
11. Public Comment
12. Adjourn

Schedule for the Interim Session – Committee Purpose

April 26, 2018 – Organizational Meeting

- Educational session on TMRS
- Overview of legislation, including HB 3056
- Collect information on viewpoints for proposing TMRS legislation in 2019 Session
- Identify how Committee representatives communicate with their constituencies and how to improve lines of communication

May 25, 2018 – Joint Meeting with TMRS Board

- Meet jointly with Board and receive presentations on Annual Actuarial Valuation, National Pension Trends, and Annual Economic Outlook
- Committee Chair and Vice Chair will update Board on results of April 26th meeting

Additional Meetings – To be determined

- Staff intends to present additional pertinent information at future Board meetings
- Board will consider the assignment of additional topics to the Committee
- Staff will keep Committee informed and provide information on any outstanding issues

Agenda Review: Committee Ground Rules

- Stay mentally and physically present; attend to non-Committee business during the breaks
- Participate appropriately - respect your colleagues - balance listening and talking so all viewpoints are heard
- Stay focused on the agenda items; resist temptation to get into other interesting topics until the time is right to do so
- Out of respect for others, refrain from sidebar conversations
- Be succinct with comments so all viewpoints are heard
- Expect the facilitator to guide, focus the comments, keep a fast pace, and interrupt, if necessary

Committee Purpose — Overview of Charter

- Revised Charter effective January 1, 2018
- Board responsible for setting agenda and assigning topics
- Committee Chair / Vice Chair responsible for setting date and time and holding meetings; reporting back to Board
- Membership: reduced to 10 members from 19, based on feedback from Committee and Board
- The Committee is responsible for:
  - Communicating with Board through updates and presentations
  - Providing input to the Board on the advantages and disadvantages of benefit design issues affecting TMRS cities, members, and retirees
  - Maintaining communication with statewide professional organizations, including employer and employee groups, and member cities

Committee Purpose – Past Study Items

Advisory Committee on Benefit Design: Topics Studied, Board Actions and Legislative Outcomes, 2008-2017		
Interim Period	Topics Studied / No. Meetings	Board Decisions / Legislative Outcome
2008	Interest crediting and Investment Diversification (5 meetings)	Endorsed Investment Diversification / Interest Crediting; HB 360 passed in 81st Session (2009)
2009-2010	Fund Restructuring (5 meetings)	Endorsed Fund Restructuring; SB 350 passed in 82nd Session (2011) Neutral on two identical return to work bills; HB 159 and SB 812 passed in 82nd Session (2011)
2011-2012	COLAs (9 different types), Gainsharing, Retirement Eligibility (5 meetings)	No plan design changes pursued; Adopted resolution for system support; No other TMRS-specific legislation passed (2013)
2014	COLAs, Two-tiered plan design, Membership Eligibility (3 meetings)	No plan design changes pursued; Adopted resolution for system support; No other TMRS-specific legislation passed (2015)
2016	COLAs (including the catch-up provision) and Return to Work (3 meetings)	No plan design changes endorsed; Adopted resolution for system support; One bill passed initiated by University Park (HB 3056). No other TMRS-specific legislation passed (2017)

Advisory Committee on Benefit Design Meeting – RTW Information

April 26, 2018

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Return to Work (RTW) Policies

- Managing policies that apply to employees who have retired and then choose to return to work (RTW) for the former employer creates challenges for all public employee retirement systems

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Prospective behavior and its impact on long term costs

- The most common RTW scenario involves a member who retires but, after retirement, wishes to return to work for economic or other reasons
- Another common scenario occurs when the member is approached by their former employer to come out of retirement and return to work
- When the decision to retire is made without the intention to return to work, costs to a system may not be significant. Under some scenarios, RTW can even produce liability gains

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Prospective behavior and its impact on long term costs

- When the RTW provisions are too attractive they can influence members to retire with the intention of returning to work
- Such provisions can change retirement behavior that may produce significant costs to the system
- Systems with lenient RTW provisions may also face political and public criticism

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TMRS current provisions

- Currently, if a member retires from one city and then returns to work for that same city:
  - The member's current annuity is suspended until he re-retires (the member forfeits the benefit payments that would have occurred during the suspension); may result in actuarial gain to city
  - A new member account is created to which the member and employer contribute (with interest granted) and the balance is annuitized at the second retirement

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TMRS current provisions

- There is a special provision for members who are separated from their employer for a period of more than 8 years before they return to work. Those members are eligible to receive as a lump sum the accumulation of their suspended benefit payments when they re-retire (without interest)

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TMRS current provisions

- When a member returns to work at another TMRS city, the member's annuity is not suspended and they can simultaneously receive their annuity from the previous city and salary from their new city
- A new member account is created to which the member and employer make contributions like any other member (with interest granted) and the balance is annuitized at the second retirement

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TMRS RTW Statistics as of 12/31/2017

- RTW rehires all cities: 1,665
- RTW rehires for another city: 1,387
- RTW rehires same city: 276 (in 139 different cities)
  - < 1 year break: 85
  - >= 1 year break: 153
    - Accrued suspended payments
      - Average: $40,169; Total: $6.145 million
      - Range: lowest is $18.70; highest is $361,962
  - >= 8 year break: 38
    - Accrued suspended payments
      - Average: $51,429; Total: $1.954 million
      - Range: lowest is $30; highest is $359,783

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Legislative History

- Before 1995, annuities suspended if retiree returned to work at <u>any</u> city.
  - All suspended payments forfeited
  - RTW retirees did not rejoin the system
- In 1995, provisions changed to current status
- TMRS proposed RTW changes in the 2003, 2005 and 2007 legislative sessions. (none passed)
  - Proposal would have allowed retirees who return to work for the same city they retired from to continue to receive annuity if they had at least a one month break in service

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Legislative History

- Also, in 2007, HB 3392 passed that allows retirees who return to work because of a failed privatization effort to do so without suspension of the annuity
- In 2011, HB 159/SB 812 passed: Allows retirees having at least an 8-year break in service before returning to work to receive a lump sum equal to their suspended payments
- In 2015, HB 2188 and 3100 did not pass:
  - HB 2188 proposed that interest be paid on suspended payments if a retiree who returns to work re-retires
  - HB 3100, proposed interest be paid and that TMRS recalculate the annuity with any COLA granted during the suspension period
- In 2017, HB 3670 did not pass, same as HB 3100 in prior session

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Advisory Committee on Benefit Design Meeting – COLA Information

April 26, 2018

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TMRS COLA Overview

- Structure
  - First adopted in 1975
    - Fixed rate; specified percentage
    - Could only be adopted once every 4 years
  - As currently structured, in place since 1981
    - Changed to CPI-based
    - "Retroactive" feature added
  - Proposed changes
    - Legislation has been filed every session since 2009, except for 2017, to modify the COLA
    - Remove "Retro" provision
    - Use "fixed rate" COLA structure as option

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TMRS COLA Coverage

- Trends – TMRS Cities
  - Overall
    - The number of cities participating in TMRS has increased from 827 in 2008 to 883 in 2018
  - Cities Adopting COLAs
    - In 2008, 495 of 827 (60%) cities adopted COLAs
    - In 2018, 472 of 883 (53%) cities adopted COLAs
  - Repeating COLAs
    - In 2008, 486 of the 495 (98%) cities adopted repeating COLAs; 467 were 70% repeating COLAs
    - In 2018, 459 of the 472 (97%) cities adopted repeating COLAs; 401 were 70% repeating COLAs
  - Ad Hoc COLAs
    - In 2008, 9 cities adopted Ad Hoc COLAs; this increased each year (except for 2010) peaking at 20 in 2013
    - Since the peak in 2013, the number of cities adopting Ad Hoc COLAs declined for three straight years, but has generally leveled off

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TMRS COLA Coverage

- Trends – TMRS Annuitants
  - Overall
    - The number of annuitants increased from 34,830 in 2008 to 63,087 in 2016, an 82% increase
  - Annuitants Covered by COLAs
    - In 2008, 32,781 of 34,830 (94%) annuitants received COLAs
    - In 2018, 50,932 of 63,087 (81%) annuitants received COLAs
  - Repeating COLA Coverage
    - In 2008, 32,006 of the 32,781 (98%) annuitants receiving COLAs were in cities with repeating COLAs
    - In 2018, 42,138 of the 50,932 (83%) annuitants receiving COLAs were in cities with repeating COLAs
  - Ad Hoc COLA Coverage
    - In 2008, 775 annuitants benefited from an Ad Hoc COLA; by 2014, this number had increased to 9,828 annuitants
    - Since 2014, the number of annuitants benefiting from Ad Hoc COLAs decreased to a low of 7,804 in 2016, but has since increased to 8,794 in 2018

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Current COLA Options

- 30%, 50% or 70% of CPI-U
- Repeating COLAs are advance funded over each active employee's working career
- Ad-hoc COLAs are funded when granted over 15 years with level dollar amortization

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Short Term Analysis

- Ad hoc rates lower in short run, but costs increase with each adoption; repeating rates are stable, but higher initially
- After 10 years, rate for a plan granting ad hocs is similar to the repeating rate and will continue to increase thereafter
- New UAAL is created every time an ad hoc is granted, overall UAAL decreases over time for repeating
- Funded ratio improves over time with repeating, may decline or stay level with ad hocs
- GASB requires consistent ad hoc adoptions to be reflected as repeating in financial statements

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Long Term Analysis

- In the long run, cumulative contributions for ad hoc COLAs exceed those for repeating COLAs
- Investment earnings accumulated through advance funding accounts for difference in long term costs

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COLAs are Retroactive

- Increases are calculated as if COLA had always been in effect since date of retirement
  - Typically referred to as "catch up" provision
- Initial COLA or an increase in CPI percent results in large benefit increases for the year adopted; longer retired, higher the increase
- Reduction in CPI percent results in lower or no increase until cumulative increase at lower percent exceeds current benefit; longer retired, longer until another increase will be granted
- Two alternatives have been previously proposed that would eliminate the retroactive or catch up feature:
  - Current CPI based COLA without retroactive feature
  - Flat rate COLA of a specified percentage increase

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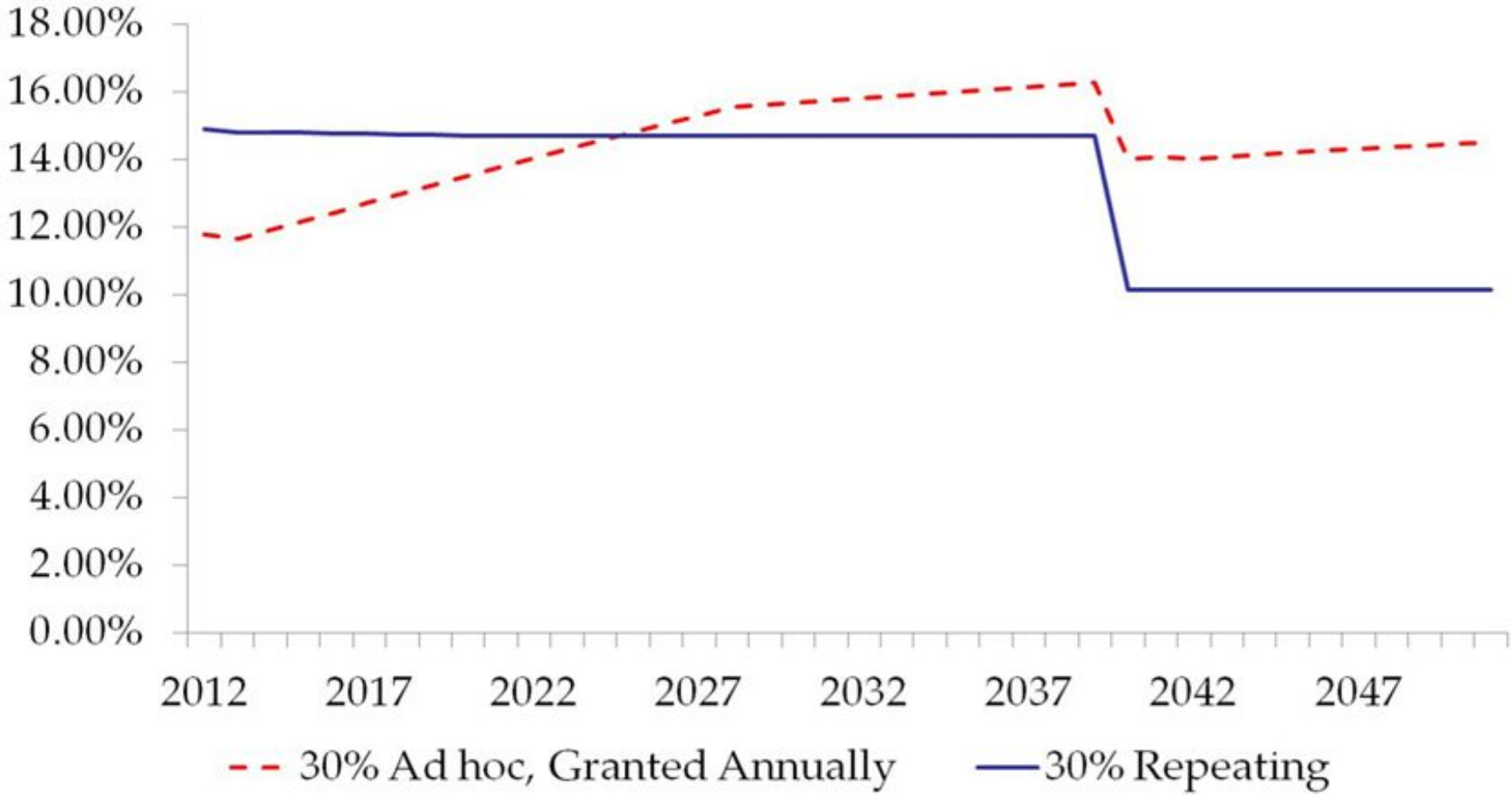
Projected Contribution Pattern



Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

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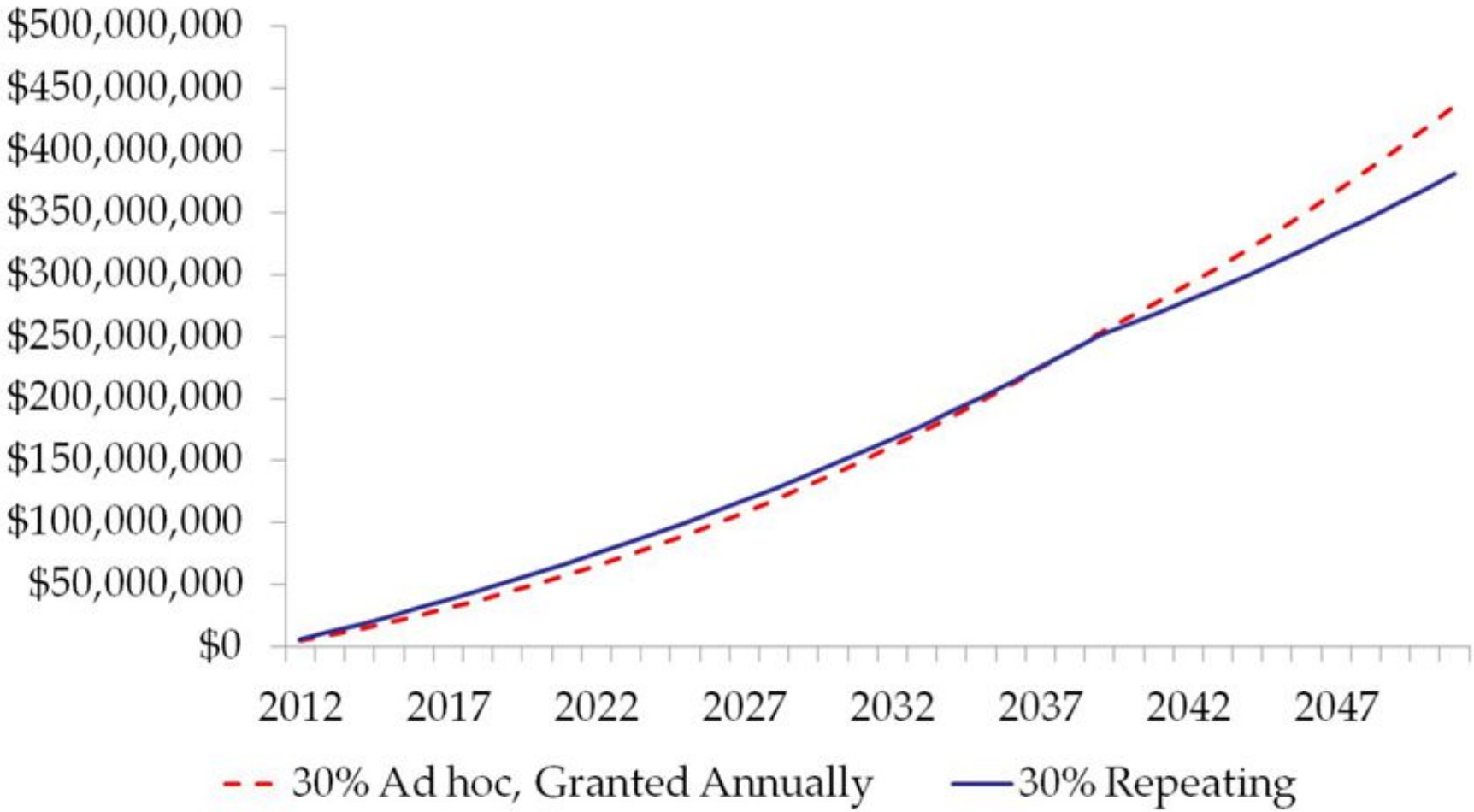
Total Cumulative Contributions



Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

22

GRS

Ad hoc Comparative Analysis 1 – COLA last adopted January 2010

	Baseline * (No COLA)	70% CPI Ad hoc with Catch-up (6.67%)	70% CPI Ad hoc without Catch-up (0.51%)	Flat 2.5% Ad hoc
UAAL	$60,062,834	$72,868,402	$61,104,951	$65,161,254
Funded Ratio	86.3%	83.9%	86.1%	85.3%
ER Current Service %	7.23%	7.23%	7.23%	7.23%
Prior Service %	5.17%	6.81%	5.30%	5.82%
Full Rate	12.40%	14.04%	12.53%	13.05%
Estimated Contribution	$10,399,826	$11,775,287	$10,508,856	$10,944,978
Annual Cost to Provide COLA		$1,375,461	$109,030	$545,152
Projected CY2017 Benefit Payments	$20,946,533	$22,343,091	$21,053,570	$21,470,196
Increase Due to COLA		$1,396,558	$107,037	$523,663

* City last adopted a COLA on January 1, 2010

Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

GRS

Repeating Comparative Analysis 1– COLA last adopted January 2010

	Baseline * (No COLA)	70% CPI** Repeating with Catch-up (6.67%)	70% CPI** Repeating without Catch-up (0.51%)	Flat 2.50% Repeating COLA
UAAL	$60,062,834	$146,419,293	$132,699,102	$167,458,448
Funded Ratio	86.3%	72.1%	74.1%	69.3%
ER Current Service %	7.23%	9.34%	9.34%	10.24%
Prior Service %	5.17%	11.68%	10.64%	13.27%
Full Rate	12.40%	21.02%	19.98%	23.51%
Estimated Contribution	$10,399,826	$17,629,382	$16,757,138	$19,717,734
Annual Cost to Provide COLA		$7,229,556	$6,357,312	$9,317,908
Projected CY2017 Benefit Payments	$20,946,533	$22,343,091	$21,053,570	$21,470,196
Increase Due to COLA		$1,396,558	$107,037	$523,663

* City last adopted a COLA on January 1, 2010

**Assumes CPI will increase 2.5% annually

Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

GRS

Ad hoc Comparative Analysis 2 – COLA never adopted

	Baseline * (No COLA)	70% CPI Ad hoc with Catch-up (10.32%)	70% CPI Ad hoc without Catch-up (0.51%)	Flat 2.5% Ad hoc
UAAL	$21,413,900	$27,155,999	$21,767,835	$23,145,480
Funded Ratio	91.0%	88.8%	90.9%	90.3%
ER Current Service %	4.90%	4.90%	4.90%	4.90%
Prior Service %	3.00%	3.88%	3.05%	3.27%
Full Rate	7.90%	8.78%	7.95%	8.17%
Estimated Contribution	$5,545,153	$6,162,841	$5,580,249	$5,734,671
Annual Cost to Provide COLA		$617,688	$35,096	$189,518
Projected CY2017 Benefit Payments	$6,601,287	$7,282,614	$6,635,019	$6,766,319
Increase Due to COLA		$681,327	$33,732	$165,032

* City has never adopted a COLA

25

Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

GRS

Repeating Comparative Analysis 2 – COLA never adopted

	Baseline * (No COLA)	70% CPI ** Repeating with Catch-up (10.32%)	70% CPI** Repeating without Catch-up (0.51%)	Flat 2.50% Repeating COLA
UAAL	$21,413,900	$69,574,123	$63,328,054	$82,437,140
Funded Ratio	91.0%	75.7%	77.3%	72.4%
ER Current Service %	4.90%	6.60%	6.60%	7.32%
Prior Service %	3.00%	7.33%	6.77%	8.49%
Full Rate	7.90%	13.93%	13.37%	15.81%
Estimated Contribution	$5,545,153	$9,777,720	$9,384,646	$11,097,326
Annual Cost to Provide COLA		$4,232,567	$3,839,493	$5,552,173
Projected CY2017 Benefit Payments	$6,601,287	$7,282,614	$6,635,019	$6,766,319
Increase Due to COLA		$681,327	$33,732	$165,032

* City has never adopted a COLA

**Assumes CPI will increase 2.5% annually

Note: This slide is based on calculations performed in 2016 and has not been updated and is for illustrative purposes only.

26

GRS

Questions?

Texas Municipal Retirement System

Charter for Advisory Committee on Benefit Design

(Effective as of January 1, 2018)

Purpose

The Advisory Committee on Benefit Design ("Advisory Committee") is created to provide input to the Board of Trustees (Board) on benefit design issues and other matters determined by the Board relating to the Texas Municipal Retirement System ("TMRS" or "System") and to provide an additional conduit for communication between TMRS and its member cities, members, retirees, and elected officials (collectively, "stakeholders"). This body is intended to allow stakeholders to share their input and perspective on issues of interest to the Board.

Composition

The Chair of the Board shall appoint two Trustees to act as a chair and vice-chair of the Advisory Committee, subject to Board approval. Both the chair and vice-chair shall be ex-officio, non-voting members of the Advisory Committee. The Advisory Committee shall be made up of two classes of members as follows:

- One class of members shall consist of Board-selected members ("Individual Class").

- The second class of members shall consist of representatives from organizations that represent TMRS members ("Group Class").

Individual Class Members

The Individual Class shall consist of three highly qualified individuals. The positions in the Individual Class shall be filled with employee-members of the System, retirees from participating municipalities, elected officials of participating municipalities, or former Trustees. To achieve diversity in membership, consideration shall be given to representation from different geographic regions of the state, different size cities, different employee backgrounds, different professional disciplines, and the diversity in member city workplaces. Up to three additional at-large committee members may also be appointed in this class, at the discretion of the Board. The Advisory Committee chair and vice-chair shall nominate individuals for consideration by the Board to serve in the Individual Class.

For members of the Individual Class who are not at-large committee members, the following provisions shall apply:

> Such members shall be appointed by the Board to serve a three-year term, with no member serving more than two full terms. Members' terms will not automatically roll over. A member must be reappointed to a second term by a vote of the Board. To the extent feasible, members' terms shall be staggered so that one Individual Class member's term expires at the end of each calendar year. Expiring Individual Class positions may be filled at the December or a subsequent Board meeting. Vacant positions may be filled at a subsequent Board meeting after the vacancy occurs.

For Members of the Individual Class who are at-large committee members, the following provisions shall apply:

> The Board shall have the authority to appoint up to three at-large committee members to be on the Advisory Committee at any given time, upon such terms and conditions as the Board, in its discretion, determines to be appropriate for each member on a case by case basis. At-large committee members (a) may be, but are not required to be, TMRS members or retirees, elected officials of TMRS cities, or former Trustees, (b) may be persons who have previously served on the Advisory Committee in either an Individual Class or Group Class position, regardless of how long they served in such position, and (c) will be entitled to vote on Advisory Committee matters, except to the extent the Board might otherwise provide in the terms and conditions of the appointment of an at-large committee member. The Board has no obligation to appoint any at-large committee members or to fill any at-large committee member's position(s) that may become vacant for any reason.

<u>Group Class Members</u>

The following seven organizations shall each be considered to be a single "member" of the Group Class: Combined Law Enforcement Associations of Texas, Texas Municipal Police Association, Texas State Association of Firefighters, Texas Municipal League, Texas City Management Association, Government Finance Officers Association of Texas, and Texas Municipal Human Resources Association. Each such organization shall nominate one person as "representative" and one person as "alternate representative" from its organization to represent the organization on the Advisory Committee, subject to Board approval. The organizations shall communicate their nominations to the Board in writing. The Board may act on the nominations at the next scheduled Board meeting, or as feasible. Each person nominated as a representative or alternate representative must be a member of the organization and a TMRS member or retiree.

A person's eligibility to serve as an organization's representative or alternate representative on the Advisory Committee ceases if the person ceases to be a member of the organization or a TMRS member or retiree. If a representative or alternate representative of a Group Class organization resigns or ceases being able to serve on the Advisory Committee, the organization shall promptly nominate another person to that

position and communicate that nomination in writing to the Board. The Board may act on the nomination at its next scheduled Board meeting, or as feasible. In the event a representative is unable to attend an Advisory Committee meeting, the alternate representative may attend the meeting in the representative's place. A person serving as a representative in the Group Class can serve no more than six years on the Advisory Committee.

Failure of an Individual Class member or a Group Class representative to attend three consecutive meetings shall be grounds for removal, unless the Board excuses the absences.

Meetings

The Advisory Committee shall hold meetings as determined by the process set out below. All such meetings are to be held at the offices of the System, or in a place specified by the notice of the meeting. The agenda for the meeting will be determined by the Advisory Committee chair in advance of the meeting. If the Advisory Committee chair is unavailable, the agenda may be determined by the vice-chair of the Advisory Committee. A quorum of the Advisory Committee is a majority of all of the members, including any at-large members, of the Advisory Committee. A majority vote of a quorum of the Advisory Committee is required for action by the Advisory Committee. Each member of the Individual Class and each representative (or alternate representative if the representative is unable to attend the meeting) of the organizations in the Group Class shall be entitled to one vote. At-large committee members will be entitled to one vote each on Advisory Committee matters, except to the extent the Board might otherwise provide in the terms and conditions of the appointment of an at-large committee member.

Responsibilities and Duties

The Board shall retain the authority to carry out the following duties and responsibilities with respect to the Advisory Committee:

- Act on any nominations of individuals to serve as members in the Individual Class or as representatives or alternate representatives in the Group Class;
- Select the set of issues to be assigned to the Advisory Committee to study;
- Approve the costs of retaining experts to assist in educating the Advisory Committee if the costs for such experts will exceed the amount budgeted for such expense for the applicable calendar year;
- Determine the number of meetings to be conducted during the Advisory Committee study period and determine the major topics to be addressed over the course of the meetings; and
- Receive reports, special presentations, other information and/or recommendations from the chair and vice-chair of the Advisory Committee and determine what action, if any, the Board wants to take in connection therewith.

The chair and vice-chair of the Advisory Committee are hereby granted the authority to carry out the following duties and responsibilities with respect to the Advisory Committee:

- Nominate individuals for consideration by the Board to serve in the Individual Class;
- Receive education on and evaluate the broad set of issues to be studied;
- Review the results of surveys conducted of Advisory Committee members (conducted by TMRS staff in advance of a study period) regarding issues of importance to the membership;
- Make recommendations to the Board of a narrow set of issues for the Advisory Committee to study;
- Appoint experts to assist in educating the Advisory Committee, subject to Board approval if the costs for such experts will exceed the amount budgeted for such expense for the applicable calendar year;
- Determine the specific meeting and agenda details for each of the authorized Advisory Committee meetings;
- Convene the Advisory Committee meetings and gather input and perspectives from members;
- Collect and evaluate any other input received from TMRS members, stakeholders or advisors regarding the issues being studied by the Advisory Committee;
- Make a determination on the best path forward regarding the issues being studied and present such information, and, if desired, make recommendations, to the Board; and
- Evaluate, formally or informally, the effectiveness of the Advisory Committee after each study period has concluded, and, if desired, make recommendations to the Board as to possible changes to improve effectiveness.

The Advisory Committee shall have the following duties and responsibilities:

- Provide input to the Board on the advantages and disadvantages of benefit design issues affecting TMRS cities, members, and retirees as assigned to the Advisory Committee by the Board;
- Participate in the meeting with the Board to receive the presentation of the annual Actuarial Valuation;
- Review and provide input to the Board on other matters as determined by the Board, including potential legislative changes to be made by and affecting the System; and
- Maintain communication with statewide professional organizations, including employer and employee groups, and member cities.

Advisory Committee Reports to the Board of Trustees

The Advisory Committee's activities will be reported through the meeting minutes and special presentations as necessary. The Board may request information from the Advisory Committee, including reports or presentations on particular issues.

Advisory Committee Travel Expenses

Advisory Committee members (for the Group Class, this means only the representative) who attend a TMRS Advisory Committee meeting to represent their constituency in their capacity as a member of the Advisory Committee are eligible for reimbursement for reasonable, actual travel expenses for meals, lodging, and transportation while on official TMRS business. A Group Class alternate representative attending an Advisory Committee meeting in place of a Group Class representative may also be eligible for reimbursement of reasonable travel expenses, as indicated. Expenses that may be reimbursed are the same as those provided for TMRS employees subject to the TMRS Employee Policies and Benefits Manual.

Charter Review and History

The Board also adopted this revised Charter on May 19, 2016, to be effective as of January 1, 2018.
The Board adopted a revised Charter on May 19, 2016, to be effective as of May 19, 2016.
The Board revised the Charter on June 17, 2011.
The Board revised the Charter on September 26, 2008.
The Board adopted the Charter on August 17, 2007.

TMRS Overview

2018 Issues

- Ongoing negative attention to local pension plans in Texas – <u>not TMRS</u>
- 2017 legislation addressed funding issues in Houston and Dallas
- TMRS' greatest challenge is to distinguish our plan from others and to explain why we have avoided many problems

TMRS History & Membership

- 883 cities participate in TMRS (not Houston, Dallas, Ft. Worth, Austin, El Paso, or Galveston).
- TMRS has approximately 111,000 contributing members and 55,600 retirees and beneficiaries.
- Governed by 6-member Board appointed by Governor with Senate approval.
- Participating cities vary in size from over 6,000 employees (San Antonio non-uniformed employees) to just 1 employee (12 TMRS cities).

Cash Balance Plan Design: Basic Structure

- Employee deposit rate:
  - 5%, 6%, or 7%, by city option
- Employer match of contributions at retirement:
  - 1:1, 1.5:1, or 2:1, by city option
- Employee deposit rate and employer match can be increased or decreased prospectively
- Benefit at retirement is based on accumulated deposits and interest and employer match — similar to a traditional Defined Contribution plan
- Such cumulative amount is used to actuarially calculate a lifetime annuity benefit – the Defined Benefit plan aspect

TMRS' Funding Basics

- TMRS is a "hybrid" **cash-balance defined benefit plan** with statutory provisions in place that ensure oversight and responsible funding.
- TMRS' investment return assumption is **6.75%**, one of the lowest among large public plans.
- Several changes have been made since 2007 to ensure **long-term, advance funding** of all benefits; except Ad Hoc adoptions of Updated Service Credit (USC) and COLAs.
- All changes have also helped **reduce volatility** of city contributions from year to year.

TMRS' Funded Status

Between 2008 and 2016, the System-wide Funded Ratio increased approximately 12 percentage points.

Year	Funded Ratio
2016	86.3%
2015	85.8%
2014	85.8%
2013	84.1%
2012	87.2%
2011	85.1%
2010	82.9%
2009	75.8%
2008	74.4%

Note: The 2017 Funded Ratio will be published in May 2018. The decrease in TMRS' funded ratio from 2012 to 2013 was primarily due to the TMRS Board adopting a change in the actuarial cost method from Projected Unit Credit to Entry Age Normal (EAN) and in the generational mortality table. The EAN method funds benefits evenly over a member's career and will reduce volatility in future city contributions. The funded ratio is expected to increase in future years.

System Soundness = City Choices

SYSTEM

- TMRS' System funded ratio is 86.3% and System-wide UAAL is $4.12 billion (as of 12/31/16)
- All city plans are funded over a closed period of no more than 25 or 30 years

CITY

- Contribution rates* vary depending on benefits (e.g., 2.55% for cities with 5% / 1:1 match with no USC/COLA, vs. 15.72% for cities with a 7% / 2:1 match and repeating USC/COLAs)
- Weighted average contribution rate for all cities for 2018 is 13.27%

*Average rates weighted by payroll

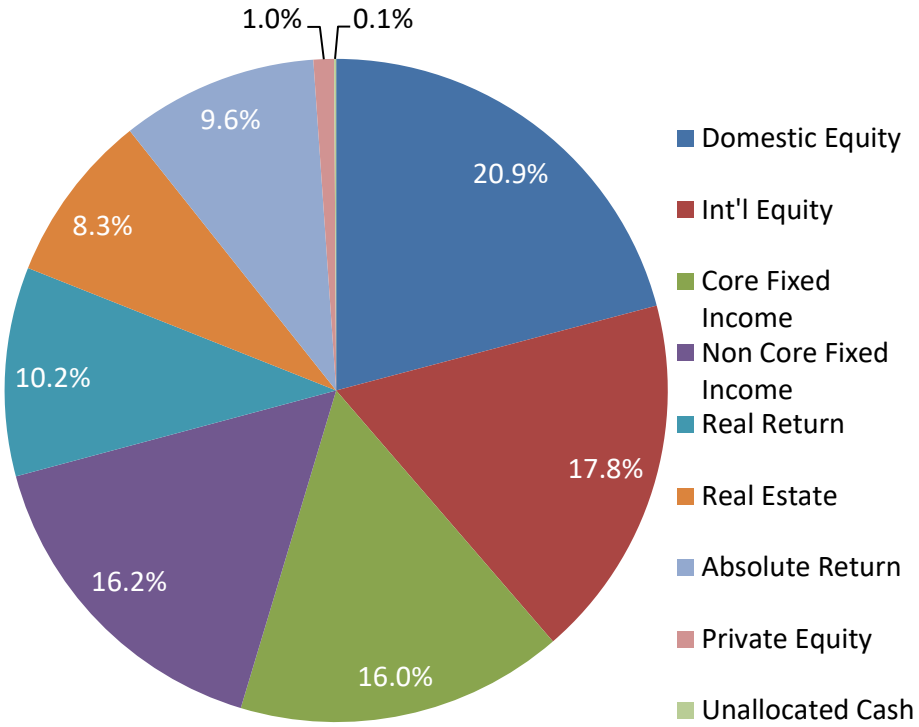
TMRS Investment History

Milestones in TMRS Investments:

- Primarily invested in fixed income since inception in 1947
- TMRS Board approved initial diversification to equity index funds in November 2007
- TMRS Board approved a multi-year allocation plan to also include alternative investments in 2009
- TMRS expects to achieve long-term target asset allocation in 2018

TMRS Investments

Asset Allocation as of 12/31/2017

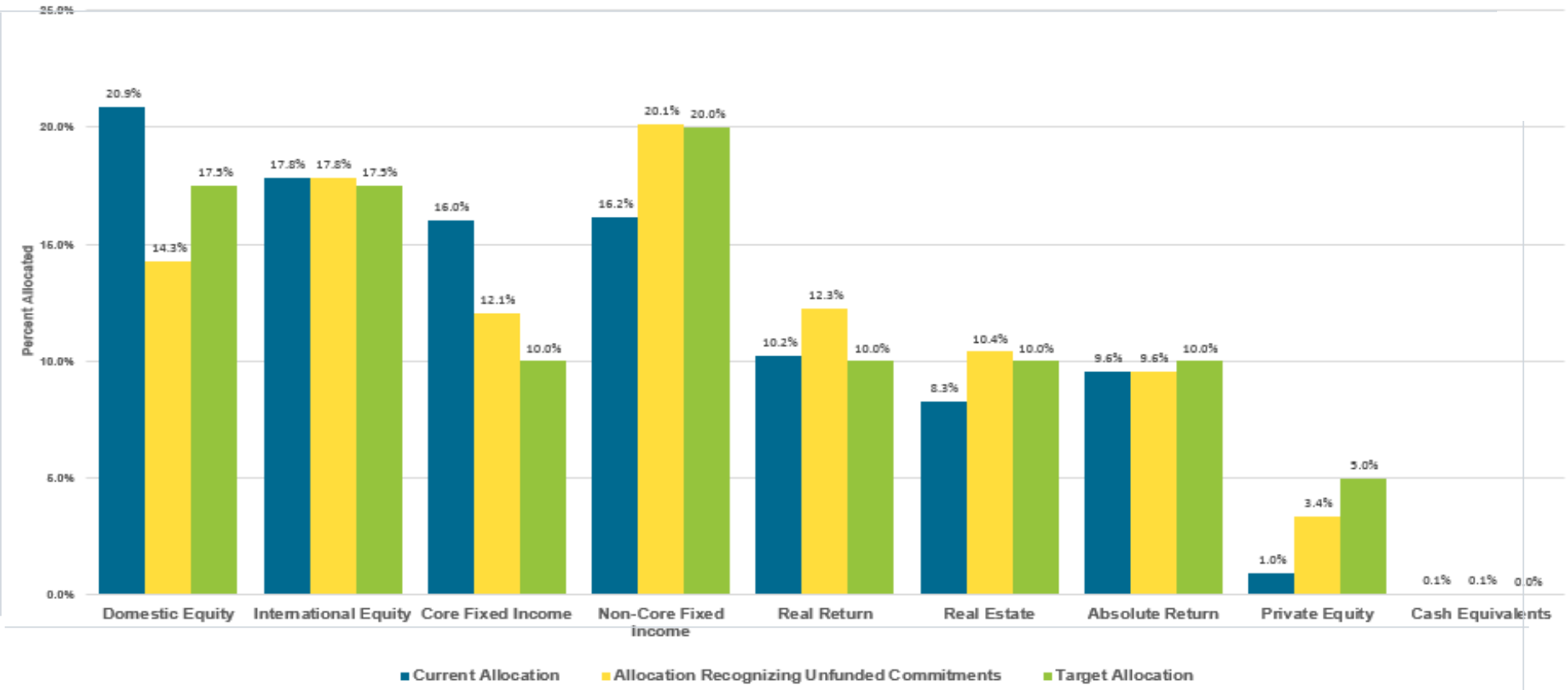


Total Market Value: $28.4 Billion

Returns (net of fees) as of 12/31/2017

1-Year Return	13.78%
3-Year Average	6.83%
5-Year Average	7.19%
10-Year Average	6.56%
20-Year Average	7.14%
25-Year Average	7.95%
30-Year Average	8.68%

TMRS Investment Portfolio Asset Allocation and Performance — December 31, 2017



	Allocation		Performance (%)									
	Market Value ($)	%	Quarter	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
Total Fund Composite	**28,433,178,555**	**100.00**	**3.26**	**13.78**	**13.78**	**6.83**	**7.19**	**6.87**	**6.56**	**6.58**	**8.64**	**01/01/1989**
Actual Allocation Benchmark			3.07	13.30	13.30	6.50	6.97	6.65	6.40	6.20	8.08	

Performance shown is net of fees and provided by State Street. Performance is annualized for periods greater than one year.

RVK

Asset Allocation Methodology

Investment Policy Statement: ***Current Strategic Allocation Target and Ranges***
The Strategic Target Allocation and acceptable ranges as determined by the Board to facilitate the achievement of long-term investment objectives within acceptable risk parameters are as follows:

Asset Class	Minimum %	Strategic Target Allocation %	Maximum %
US Equity	12.5	17.5	22.5
International Equity	12.5	17.5	22.5
Core Fixed Income	5	10	15
Non-Core Fixed Income	15	20	25
Real Estate	5	10	15
Real Return	5	10	15
Absolute Return	5	10	15
Private Equity	0	5	10
Cash Equivalents	0	0	10

Why Cities Choose TMRS

- TMRS increases a city's workforce competitiveness in hiring.
- TMRS benefits are effectively portable across participating cities to help attract experienced employees.
- More benefit for the taxpayer dollar: a defined benefit (DB) plan provides equivalent retirement benefits at about half the cost of a typical defined contribution (DC) plan.*

*Source: NIRS, "Still a Better Bang for the Buck," December 2014

How the Public Benefits from TMRS

- Competitive benefits help build a better workforce
- The majority of a TMRS retiree's benefit is ***funded by investment earnings*** on member and city contributions over the member's career
- TMRS' administrative costs, funded by investment earnings, are low — approximately **0.36%*** of assets in 2017 (including investment management fees) — compared to an average of 1.00% for 401(k)s**

*** Preliminary; investment fees do not include fees that are paid directly out of private investment funds.**
**** Source: Center for American Progress, 2014 study.**

How the Public Benefits, cont.

- TMRS invests **$28.4 billion*** in the capital markets
  - Investments are made through a well-diversified portfolio over a long investment horizon
- TMRS benefits provide a stable income for retirees and may reduce their need for other public services, post-retirement

* Preliminary; as of 12/31/17

How Members Benefit

- TMRS provides a lifetime benefit with survivor options
- Members receive the benefit of the prudent, diversified investment policies of the System (as opposed to relying on making personal investment decisions)
- A pension plan provides greater stability and less vulnerability to market fluctuations
- Individual account balances of TMRS members were not affected by the severe market downturn of 2008; whereas 401(k) asset values declined more than 25% on average

Pensions in the News

- Pension problems may include:
  - Benefits that are not sustainable
  - Required contributions that are not being made
  - Unrealistic assumptions may understate pension costs and lead to long-term problems
  - Controversy over state vs. local governance
- All these issues have attracted the attention of legislators

How TMRS' Plan Design Addresses Potential Problems

Benefits that are not sustainable…

- Benefits are chosen by each city; if a city feels benefits are not sustainable, they can be prospectively reduced.
- TMRS cash balance design bases benefits on accumulated deposits and interest, not a "traditional" defined benefit formula.
- The average "original" TMRS benefit received by retired TMRS members at retirement was $18,971 (an average of all the initial retirement annuities of retiring TMRS members from 1997 through 2017 per year).

Required contributions that are not being made…

- The TMRS Act requires funding discipline: each TMRS city must pay the actuarially determined amount necessary to advance fund all benefits over the active working career of each employee.
- No “pension holidays” for contributions are allowed.
- In the event that a city cannot afford its contributions, benefits may be prospectively reduced by the city to reduce costs.

Unrealistic assumptions may understate pension costs and lead to long-term problems

Actuarial assumptions are regularly reviewed. Those recently adjusted:

- Adopted Entry Age Normal as funding method *(Oct. 2013)*
- Adopted new Generational Mortality Tables *(Oct. 2013)*
- Adopted funding policy *(Dec. 2013)*; Updated policy *(Dec. 2015)*
- Expected Rate of Return reduced to 6.75% from 7.0% based on asset allocation and experience study *(July 2015)*

State and Local Governance

- TMRS is centrally governed by a 6-member Board of Trustees, appointed by the Governor with Senate approval, but benefit decisions are made by city officials.
- TMRS is subject to oversight by the State Pension Review Board and state legislative committees.

Recognition of TMRS Practices

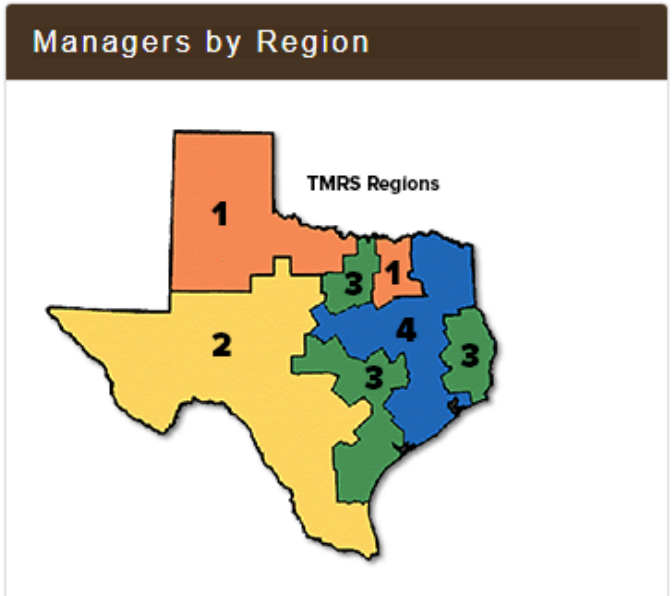
- Named Public Plan Sponsor of 2009 by *PlanSponsor* magazine
- In a 2012 study by the Texas State Comptroller's Office, TMRS was one of only three Texas plans to meet all benchmarks for financial stability
- Meets all of the funding guidelines currently under consideration by the Texas State Pension Review Board
- Recognized in 2017 by the Center for State and Local Government Excellence as one of five systems nationwide that have developed effective approaches to pension reporting, communication, and transparency.

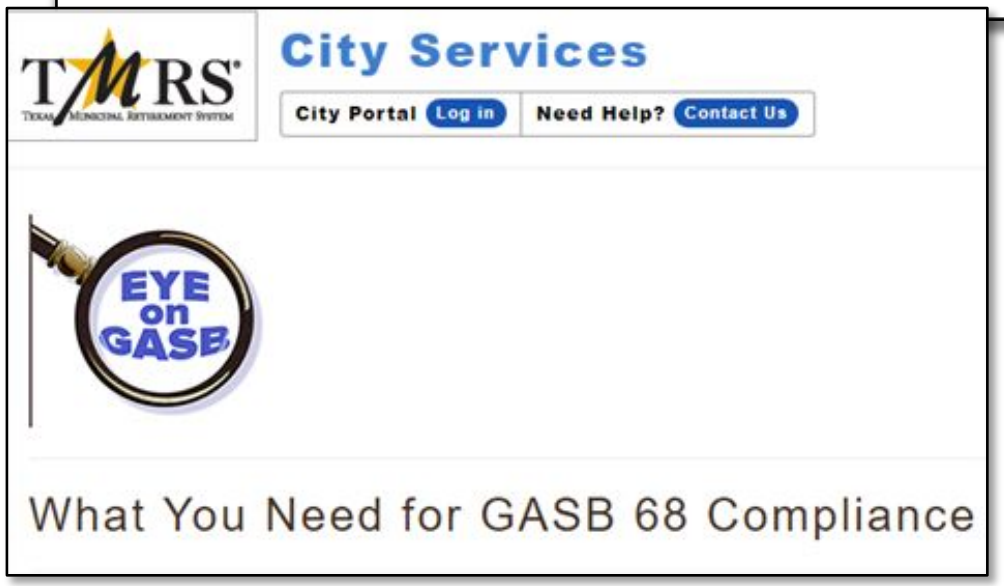
TMRS Resources – TMRSDirect®

- MyTMRS® – Self-service online account access for members and retirees
  - *View:* balance, service credit, beneficiaries, estimates, statements, other documents
  - *Update online:* contact information, communication preferences, beneficiaries (in situations that do not require spousal consent)
- City Portal – Online confidential access to city, employee, and retiree data, GASB-related documents, reports, payroll reporting
  - *Newest feature:* secure document upload

TMRS Resources

- Transparency page
- Eye on GASB
- Travel Team – city visits





TMRS Resources – Publications

Online and Print

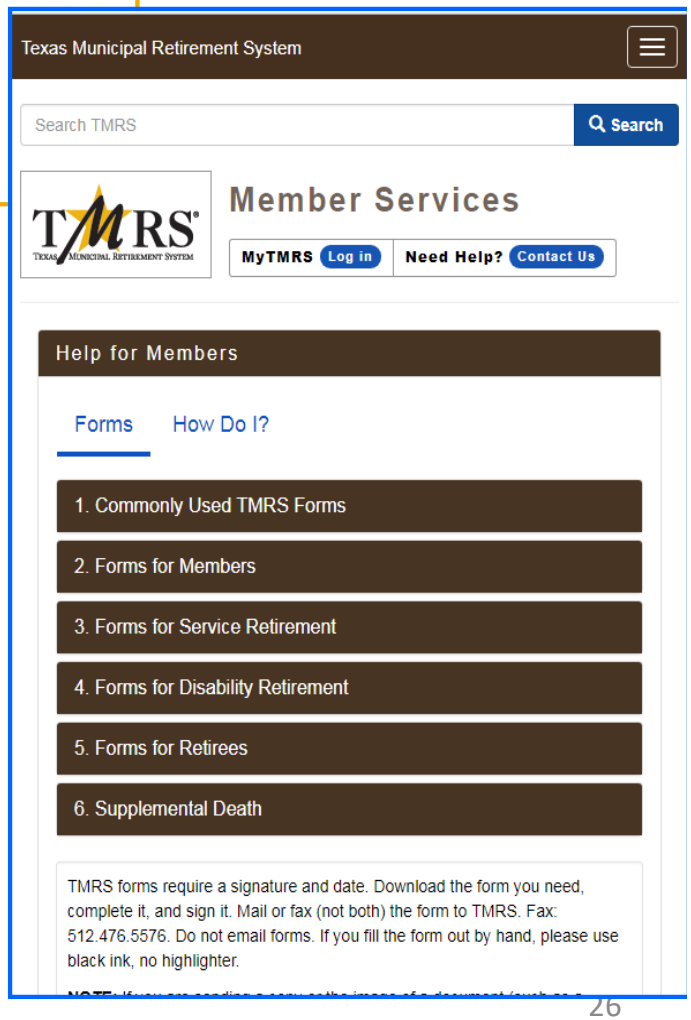
- E-bulletin — directed to city officials
- E-newsletters for different audiences
- Specialized publications for different audiences
  - *Main Street* newsletter (for Cities)
  - *INSIGHT* newsletter (for Members)
  - *RetirementWise* magazine (for Retirees)
  - Topic flyers for cities (COLAs, USC, etc.)
  - Spanish-language publications (Member Guide, TMRS Facts, web page)

TMRS Website

- Responsive to different screen sizes and devices, such as smart phones and tablets
- Multiple pathways to content, and content pages grouped by audience (Retirees, Members, Cities, Public)
- More accessible (ADA compliant) for users with disabilities

iPad or tablet width

Cell phone width



Questions?

Legislative Review

Legislation Filed and Passed

	85th Session			84th Session		
	House	Senate	Total	House	Senate	Total
Bills Filed	4,333	2,298	6,631	4,207	2,069	6,276
Bills Passed	700	511	1,211	818	504	1,322
Pass Rate	16%	22%	18%	19%	24%	21%
Pension Bills Tracked	31	24	55	29	15	44
Pension Bills Passed	6	3	9	3	2	5
TMRS-Specific Tracked	2	0	2	3	1	4
TMRS-Specific Passed	1	0	1	0	0	0

TMRS-Related Legislation Passed in 2017

- HB 3056 – Permits the City of University Park to close its TLFFRA plan for fire fighters and enroll new fire department employees in TMRS (Handout)

- SB 500 – Suspends the annuity payments of an elected member of a public retirement system who is convicted of a qualifying felony (as defined) after the effective date of the Act (July 6, 2017) and who committed the offense while in office and performing duties of the office

TMRS-Related Bills Failed to Pass in 2017

- HB 3670 – Proposed changes to the law governing TMRS retirees who return to work to the same city from which they retired. Would have required a retiree's annuity to be recalculated upon re-retirement. For retirees who returned to work after 8 years, interest would be required to be paid on their suspended benefits.

- HB 632 – Proposed to cap the amount of an annuity from a retirement system based on the pay of an active duty military officer or federal employee.

Interim Period: House Interim Charges

Full list of House charges issued on October 23, 2017

- House Pensions Committee has been given three specific interim charges; two relate to TMRS:
  - Review state's oversight of pensions, including effectiveness of corrective mechanisms, including soundness restoration plans and Pension Review Board funding guidelines
  - Evaluate governance structures, including investment oversight of the statewide retirement systems; identify best practices and make recommendations to strengthen oversight
- Hearing scheduled for May 10, 2018; TMRS not testifying (Local Plans, Pension Review Board and Teacher Retirement System)

Interim Period: Senate Interim Charges

Senate State Affairs Committee issued charges on October 24, 2017

- One charge relates specifically to TMRS:

  Examine and assess public pension systems in Texas. Specifically, review and assess (1) the different types of retirement plans; (2) the actuarial assumptions used by retirement systems to value their liabilities and the consequences of amending those assumptions; (3) retirement systems' investment practices and performance; and (4) the adequacy of financial disclosures including asset returns and fees. Make recommendations to ensure public pension system retirees' benefits are preserved and protected.

- Hearing held on April 4, 2018 in State Capitol
- All statewide systems testified
- Takeaways for TMRS: "Impressed" with TMRS due to actuarial changes made; Board makes all investment manager decisions; TMRS structure

Pension Review Board Initiatives

- Actuarial Committee
  - Performing “Actuarial Reviews” of local plans.
  - Galveston Police
  - TLFFRA Plans: Greenville, Beaumont, Marshall, Irving
- Advisory Committee on Principles of Plan Design
  - Has developed principles of plans design
  - Took stakeholder input on draft principles
  - Discussed at meeting on April 24th
  - Next step
- Biennial Report to Legislature
  - Will reportedly include an internal study item on system pooling of assets

Questions?

FOR TMRS ADVISORY COMMITTEE MEETING – APRIL 26, 2018

Summary of HB 3056 – University Park Bill – enacted effective 9/1/2017

- Amended both the Texas Local Fire Fighters Retirement Act (TLFFRA) and the TMRS Act
- The new provisions only applied to a municipality that met certain criteria set out in the Bill (sometimes called a "bracketed" bill). Only the City of University Park met the criteria.
    - Note – University Park was already participating in TMRS for its employees, excluding its Fire Department employees
- The changes to the TLFFRA and TMRS Acts basically provided that:
    - A city could adopt ordinances to (i) exclude new Fire Department (FD) employees from participating in the city's TLFFRA plan, and (ii) allow such new FD employees to participate in TMRS
        - Note – their participation in TMRS would be on the same basis as other city employees already in TMRS (required by existing TMRS Act)
    - The exclusion/inclusion provisions apply only to FD employees "first hired on or after the closure effective date."
        - The "first hired" language was included to limit application only to truly "new" FD employees and not to anyone who has previously worked for the city's fire department. This was done to avoid potential legal issues that could arise if one tries to include existing TLFFRA members or retirees in the TMRS plan, including potential Texas Constitutional issues under Art. 16, §66 and §67.
        - The "closure effective date" is a date determined based on when TMRS receives the necessary ordinances and other documents required by the new provisions.
    - The city must submit the ordinance to exclude new FD employees from the TLFRRA plan to a vote of the TLFFRA plan members; a majority of the TLFFRA members must approve it; and if approved, the TLFFRA Board must amend its plan documents and then the city must provide TMRS with the ordinances and other related TLFFRA plan documents
        - In general, the TLFFRA Act requires that proposed changes to benefits or eligibility be submitted to members for approval
    - The TMRS Act was amended to provide that, for TMRS' purposes, a "department" includes those new FD employees of a city who are allowed to participate in TMRS because the city completed all necessary actions under the new TLFFRA and TMRS provisions
        - Note - Prior to this change, a city "department" participating in TMRS had to include <u>all</u> employees in the department
    - All actions required by the statutory provisions must be completed before October 1, 2018; if not, the provisions would expire and TMRS would be required to publish notice to that effect
        - Note - University Park completed all required actions in Sept. 2017; so, their FD employees first hired on or after Nov. 1, 2017 are now eligible to enroll in TMRS

Source: TMRS General Counsel, 4-17-2018

Legislative Issues and Outlook

TMRS
Texas Municipal Retirement System

Legislative Issues

- Proposing any plan design or other legislative changes to the TMRS Act depends on a number of factors, including:
  - Inventorying potential changes to the TMRS Act
  - Categorizing the potential changes and determining if they are critical to the operations of TMRS
  - The Board determining that these needs are a priority for the long-term success of TMRS
  - Whether the legislative/political climate is conducive to garnering support for these changes

Legislative Issues

Identifying Potential Changes to the TMRS Act:

- The TMRS Act Review Project, which is part of the current TMRS Strategic Plan, is the foundation for the inventory and the Board's decision-making process
- This review started in 2014 and is nearing conclusion
- Suggestions are being categorized into plan design issues, operational changes, and operational clarifications
- Suggestions are being prioritized and will be presented to the Board at a future meeting for their consideration

Legislative Issues

- Proposing any plan design or other legislative changes to the TMRS Act will depend on a number of factors, that include:
  - Whether any changes are critical to the operations of TMRS (needs vs. wants)
  - The Board's determination that these needs are a priority for the long-term success of TMRS
  - Whether the legislative/political climate is conducive to pension legislation, and specifically benefit design changes
  - Board will also determine level and timeframe of involvement of Advisory Committee in this process once decision is made

Legislative Outlook

External factors that are of consequence to proposing plan design or other changes include:

- Outcome of November elections and legislative turnover
- Outcome of House Speaker's race
- Overall legislative attitude towards pensions
- Other pension issues that could affect TMRS

Questions?

Lunch Break

Advisory Committee Viewpoints

Advisory Committee Viewpoints

- Review the Results of the Survey of Advisory Committee Members
- Communicating with Constituencies
- Offer Ideas for Providing Information / Updates on TMRS

Advisory Committee members:

TMRS has dedicated time to discuss two important issues at the April 26th Advisory Committee meeting. 1) How to improve communication with our constituencies. 2) Gaining insight on the 86th Legislative Session from our constituencies. For next week's meeting, please collect information to answer the following questions.

Communication

1. What is the primary means by which you obtain information about TMRS?

2. What platforms or methods do you use to communicate with your constituency or peers about TMRS (or other issues)?

3. In your opinion, what is the best method TMRS can use to convey information to local constituencies?

4. Aside from the various methods that TMRS uses to provide services and information, what can TMRS do to engage members, elected officials, and retirees on critical issues facing TMRS and other defined benefit plans?

5. How can TMRS improve the way it communicates with all of our constituencies?

86th Legislative Session

1. What are you hearing from your individual constituencies, city council members or city managers, or local TMRS members or retirees about the upcoming legislative session in general and in regard to pensions?

2. Are there any pressing pension (benefit design) issues being discussed in/by your cities, members, retirees, or constituencies?

TMRS EXTERNAL COMMUNICATIONS

Audience	Print	Website*	Targeted E-mail	Videos**	Social Media***	Meetings	Training
City Officials	Flyers, Guides, CAFR, Actuarial studies, Grid outputs	CITIES page, Finance/Actuarial pages	E-bulletin for Cities, Rate Letters, Actuarial studies	Introduction to TMRS	Facebook, Youtube	Council, budget, and executive meetings	Annual Seminar, Executive Workshops
City Administrators	Flyers, Guides, Actuarial studies, City Portal agreements	CITIES page City Portal	E-bulletin for Cities, Rate Letters, Training invitations	All	FB, Youtube	By city request	Annual Seminar, City Correspondent Course, Regionals
Active Members	*INSIGHT* NL (biannual) Flyers, Guides	MEMBERS page MyTMRS	TMRSDirect E-News for Members	Welcome to TMRS, Designating your Bene, Retirement Annuity Options	FB, Youtube	Member fairs, annual enrollment, employee orientations	Pre-Retirement Regional Conferences
Retirees/ Annuitants	*Retirementwise* mag (biannual) Flyers	RETIREES page	TMRSDirect E-News for Retirees	Returning to Work after Retirement	FB, Youtube	Retiree Luncheons, association meetings as requested	NA
Press/ Public	Flyers, Guides	ABOUT page, Investments page, Board PPTs	E-newsletters on request (e.g., Pension Intelligence)	Welcome to TMRS, Introduction to TMRS	FB, Youtube	NA	NA
Board/ Adv Committee	Meeting materials as needed	ABOUT page, Board meeting content (Diligent)	Meeting input, planning and content – Exec staff	All	FB, Youtube	Executive one-on-one and group meetings, Association conferences	Presentations, Fiduciary Training
Elected Officials	Legislative flyer, Legislative District Profiles	ABOUT page, Legislative	E-newsletters on request (e.g., Pension Intelligence)	Introduction to TMRS	FB, Youtube	Executive one-on-one and group meetings, newly elected officials briefing	Presentations to legislative committees
Stakeholders/ Organizations	Flyers, Guides, CAFR	ABOUT	E-newsletters on request (e.g., Pension Intelligence)	Introduction to TMRS	FB, Youtube	One-on-one and group meetings, presentations at conferences	Presentations on request

*General web content (www.tmrs.com) applies to all; content-specific pages listed. All printed materials are hosted on the website as PDFs after production. The online data access products (City Portal and MyTMRS) are hosted on the website and owned by IT.

**Instructional videos apply to all; audience-specific videos noted.

***Anyone who wants to follow us on SM would see our informational posts for all audiences. Our videos are hosted on Youtube. We're also planning to add Instagram and Twitter to reach different demographics with vetted content. TMRS has a Linked In page, managed by HR – doesn't include info posts like FB does.

April 23, 2018

Session Recap

Session Recap

- Discuss Advisory Committee Comments and Solicit Additional Comments
- Discuss and Agree On Follow Up Information Requests

Next Committee Meeting

Discussion of Agenda for Next Committee Meeting

- Time / Place / Duration
- Framework

Public Comments / Adjourn